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IN THE

UNITED STATES COURT OF APPEALS

FOR THE SEVENTH CIRCUIT

No. 12070

CONSOLIDATED PACKAGING MACHINERY CORPORATION,
Plaintiff-Appellee,

v.

RICHARD J. KELLY, Executor of the Estate of THOMAS C. KELLY, Deceased,
Defendant-Appellant.

Appeal from the United States District Court for the Northern District of Illinois, Eastern Division.

Honorable WIN G. KNOCH, Judge Presiding.

BRIEF AND APPENDIX FOR PLAINTIFF-APPELLEE

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Defendant-Appellant.

Appeal from the United States District Court for the Northern District of Illinois, Eastern Division

Honorable WIN G. KNOCH Judge Presiding.

PLAINTIFF-APPELLEE'S BRIEF

Statement of the Facts

This action is here on the appeal by the defendant, Kelly, from a judgment entered by the court below on April 29, 1957, holding an agreement dated June 3, 1944, between plaintiff, Consolidated, and Thomas C. Kelly, now deceased, to be invalid and unenforceable (D.'s App., pp. 30-31).* The action was initiated on February 20, 1956 (D.'s App., p. 1), by plaintiff's complaint for declaratory judgment (D.'s App., pp. 4-5), and came on before the court

* Defendant's brief and the appendix annexed thereto will be designated, respectively, as "D.'s Br." and "D.'s App." The appendix of plaintiff annexed hereto will be designated "Pl.'s App." Italics and brackets within quotes are ours throughout unless the contrary is indicated.

on the separate motions of defendant and of plaintiff for summary judgment (Pl.'s App., pp. A1, A3).

Substantially every fact pertinent to the issues here is found within the limits of the agreement of June 3, 1944 (D.'s App., pp. 6-13). The very few additional facts which are either necessary or helpful to decision are set forth in the affidavit of J. Edgar Kelly (D.'s App., pp. 14-15); that of Edward G. Kuhn (D.'s App., pp. 16-25); and that of James D. Bock (Pl.'s App., pp. A5-A9). There is no conflict between the parties as to the facts, as is shown by the fact that both parties, in their motions for summary judgment, asserted that "there is no genuine issue as to any material fact" (Pl.'s App., pp. A1, A3).

Notwithstanding this, defendant, in his brief here, repeatedly makes statements which are entirely without support in the record.* The facts which are pertinent, and which are in the record, are brief enough to warrant their recitation here.

By the agreement of June 3, 1944, Kelly granted plaintiff an exclusive license under a single patent—Kelly patent No. 2,171,572 of September 5, 1939—relating to a machine used to insert cotton wadding into the neck of a bottle and known as a "Cottoner" or "Kottoner".

The paragraphs of that agreement which are of primary importance here are Paragraphs 9 and 12 (D.'s App., pp. 10 & 11). By Paragraph 9 Kelly fixed the price at which plaintiff might sell not only machines made under the licensed patent but also machines *not* so made, and by Paragraph 12 it was provided that, if plaintiff failed "to secure

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* Thus, there is nothing in the record as to the reasons behind or the method of negotiating or executing the agreement of June 3, 1944, between plaintiff and Kelly or the agreement between plaintiff and Lakso (see D.'s Br., pp. 2-3, 12-13), or as to the amount of royalties paid Kelly (D.'s Br., p. 5), or as to any breach by plaintiff of the agreement of June 3, 1944, by selling at prices in excess of those set forth therein, or as to the fact that that agreement was drafted by plaintiff (D.'s Br., p. 16).

and maintain an exclusive license" under patents *not* owned or controlled or licensed by Kelly, plaintiff thereafter was precluded from manufacturing any machines except those of the licensed Kelly type.

In addition to these two paragraphs, Paragraph 4 provided for the payment to Kelly of a "commission" of 7½% on all of plaintiff's sales of machines made under two Lakso patents (D.'s App., pp. 7-8), and Paragraph 5 provided for the payment to Kelly of a "royalty" of 7½% on all of plaintiff's sales of machines made under the licensed—Kelly—patent (D.'s App., p. 8). The considerations recited for the agreement to pay "commissions" were the adjustment of all outstanding claims under an earlier agreement; plaintiff's release by Kelly from the obligation "to abstain from the manufacture and sale of any Cottoners other than those manufactured and accounted for under the Kelly patent aforesaid"; and Kelly's "granting" to plaintiff "of the right to manufacture" Lakso type machines (D.'s App., pp. 7-8).

Paragraph 6 provided for the assignment by plaintiff to Kelly of patent applications relating to "any improvements of a patentable order on the Kelly type machine" (D.'s App., p. 8).

The remaining paragraphs are relatively conventional and of little importance here.

Beyond the agreement, the only facts of any moment are that plaintiff obtained an exclusive license under the Lakso patents (D.'s App., pp. 15, 17 and 19-21); that "There is no relationship between Kelly and Lakso, and the Lakso type machines manufactured by Consolidated under the Lakso patents are materially different from the Kelly type machines manufactured by Consolidated under the Kelly patent" (D.'s App., p. 17); and that "In February and March 1956, this Lakso agreement was amended to provide that the said license to Consolidated would thereafter be non-exclusive, and that the requirement for the payment of royalties by Consolidated to Lakso would thereafter be discontinued" (D.'s App., pp. 17, 22-25).

Summary of Argument

Paragraph 9 of the agreement of June 3, 1944, between plaintiff and Kelly provides a maximum and a minimum price at which plaintiff may sell its Cottoners made under the licensed Kelly patent and also those made under the Lakso patents which were neither owned nor controlled by Kelly. The fixing of prices on a product which is not covered by a patent owned by the price fixer is contrary to the Sherman law and illegal. Therefore, while the fixing of prices of plaintiff's Kelly type Cottoners is unexceptionable, the extension of price fixing to Lakso type Cottoners is illegal, and this is true even though Paragraph 9 did not prescribe precise and definite prices but, instead, fixed only a floor and a ceiling price. And an illegal price fixing of this nature may not be severed from the rest of the agreement, but the entire agreement is affected and is invalid and unenforceable.

Paragraph 12 of that agreement provides that upon the happening of certain contingencies plaintiff shall be restricted to the manufacture of Kelly type Cottoners, alone. The contingency has occurred. It is unlawful to use a license under a particular patent as a lever to compel the licensee to refrain from dealing in any product not covered by the licensed patent. Paragraph 12 therefore is illegal and unenforceable.

Where an agreement, as here, contains unlawful price fixing and other provisions, the agreement is an integral whole, and the unlawful provisions cannot be severed, so the entire agreement is tainted and unenforceable.

Contested Issues

Plaintiff accepts defendant's statements I and II of the "Contested Issues" (D.'s Br., p. 8).

Propositions of Law Relied Upon

1. In the absence of a patent, a contract to fix prices is illegal *per se* under the Sherman Act.

Ethyl Gasoline Corp. v. *U. S.*, 309 U. S. 436, 456, 459 (1940);
United States v. *Line Material Co.*, 333 U. S. 287, 307-308 (1948).

2. Price fixing includes more than establishing uniform prices, and, specifically, it includes fixing maximum and minimum prices.

Allied Paper Mills v. *Federal Trade Commission*, 168 F. 2d 600, 607 (7th Cir., 1948);
Schine Theatres v. *United States*, 334 U. S. 110, 120 (1948);
Kiefer Stewart Co. v. *Seagram & Sons*, 340 U. S. 211, 213 (1951).

3. Illegal price fixing may not be severed from an agreement. Instead, the provisions of the agreement are integrated and the entire agreement is unenforceable.

Katzinger Co. v. *Chicago Mfg. Co.*, 329 U. S. 394, 401 (1947);
MacGregor v. *Westinghouse Co.*, 329 U. S. 402, 407 (1947).

4. It is illegal to use a patent to suppress competition in a non-patented article.

F. C. Russell Company v. *Comfort Equipment Corp.*, 194 F. 2d 592 (7th Cir., 1952), affirming 97 F. Supp. 784, 787 (N. D. Ill. E. D., 1951);
National Lockwasher Co. v. *George K. Garrett Co.*, 137 F. 2d 255, 256-257 (3rd Cir., 1943);
McCullough v. *Kammerer Corporation*, 166 F. 2d 759, 762 (9th Cir., 1948), cert. denied 335 U. S. 813 (1948).

Argument

This brief will consider, first, the questions of the illegality of Paragraphs 9 and 12 of the agreement of June 3, 1944, and, then, those parts of defendant's brief which have not already been answered.

Paragraph 9 of the Agreement of June 3, 1944, violates the Antitrust Laws and is Invalid.

With respect to Paragraph 9*, the District Court found (D.'s App., p. 28):

> "Said agreement further, in paragraph 9 thereof, prescribed the minimum and maximum prices at which Consolidated might sell cottoners made under either the Kelly or the unrelated Lakso patents thus constituting a fixing of prices by Kelly without patent or other statutory authorization."

Defendant apparently feels it necessary to establish the propriety of a licensor's fixing the price at which his licensee might sell the product made under *the patent of the license*, that is, under the Kelly patent (D.'s Br., pp. 15-16). But plaintiff has never questioned and does not now question this practice.

Paragraph 9, however, as the District Court held, went way beyond fixing the price at which plaintiff might sell Kelly type machines and also fixed the price at which plaintiff might sell Lakso machines.

While these Lakso machines are covered by patents, they are Lakso patents and Kelly had no interest in them and the

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* Paragraph 9 provides as follows: "It is further agreed between the parties hereto that the minimum price per machine of either type shall be Two Thousand Five Hundred Dollars ($2,500.00) and that the maximum price on standard machines shall be Five Thousand Dollars ($5,000.00) unless the machines embody special features of construction, and that such price range shall be maintained unless changes therein are mutually agreed to in writing" (D.'s App., p. 10).

Kelly patent in no way affected them (D.'s App., p. 17; see also D.'s Br., pp. 12, 2). Consequently, so far as this action is concerned, the Lakso machines may be considered as though unpatented, and certainly as unprotected by the Kelly patent.

The applicable rule in such cases is firmly established. Its scope is well illustrated by statements of the Supreme Court in *Ethyl Gasoline Corp.* v. *U. S.*, 309 U. S. 436 (1940), and *United States* v. *Line Material Co.*, 333 U. S. 287 (1948).

In the *Ethyl Gasoline* case the court stated that a patentee

> "may not, by virtue of his patent, . . . condition the license so as to control conduct by the licensee not embraced in the patent monopoly . . ." (309 U. S. 456)

and

> "The patent monopoly of one invention may no more be enlarged for the exploitation of a monopoly of another . . . than for the exploitation of an unpatented article, . . . or for the exploitation or promotion of a business not embraced within the patent" (309 U. S. 459).

To the same effect, in the *Line Material* case, the court said (333 U. S. 307-308):

> "In the absence of a patent or other statutory authorization, a contract to fix or maintain prices in interstate commerce has long been recognized as illegal *per se* under the Sherman Act. This is true whether the fixed price is reasonable or unreasonable . . .
>
> "It is equally well settled that the possession of a valid patent or patents does not give the patentee any exemption from the provisions of the Sherman Act beyond the limits of the patent monopoly."

Here Kelly did "condition" the agreement of June 3, 1944, "so as to control conduct by [plaintiff] not embraced in the [Kelly] patent monopoly". But that patent, in the

words of the *Line Material* decision, does not give Kelly (or defendant here) "any exemption from the provisions of the Sherman Act beyond the limits of the patent monopoly".

A machine, made under the Lakso patents and admittedly not infringing the Kelly patent (D.'s Br., pp. 12, 2), certainly is "beyond the limits of the [Kelly] patent monopoly". Therefore, Paragraph 9 is "illegal *per se* under the Sherman Act".

See also, *U. S.* v. *Bausch & Lomb Co.*, 321 U. S. 707, 720 (1944); *United States* v. *Gypsum Co.*, 333 U. S. 364, 400 (1948); *United States* v. *New Wrinkle, Inc.*, 342 U. S. 371, 377 (1952).

And the illegality of Paragraph 9 is in no way affected by the fact that, instead of fixing precise or definite prices, that paragraph established a floor and a ceiling within which plaintiff's sales had to be made. This is established in this Circuit as in other federal courts. Thus, in *Allied Paper Mills* v. *Federal Trade Commission*, 168 F. 2d 600 (1948), this Court said it was "the clear law" that

> "price fixing as an unlawful act includes any tampering with or manipulation of prices. It includes more than the mere establishment of uniform prices, and it is not important that the prices fixed were not fixed in the sense that they were uniform and inflexible" (168 F. 2d 607).

So also *National Lead Company* v. *Federal Trade Commission*, 227 F. 2d 825, 833-834 (7th Cir., 1955); *U. S.* v. *Socony-Vacuum Oil Co.*, 310 U. S. 150, 222 (1940); *Schine Theatres* v. *United States*, 334 U. S. 110, 120 (1948); *Kiefer-Stewart Co.* v. *Seagram & Sons*, 340 U. S. 211, 213 (1951).

Not only is Paragraph 9 illegal, but that illegality goes to the heart of and vitiates the *entire* contract (*Katzinger Co.* v. *Chicago Mfg. Co.*, 329 U. S. 394, 401 (1947); *MacGregor* v. *Westinghouse Co.*, 329 U. S. 402, 407 (1947)). In the *Katzinger* case the court not only held against sever-

ability, but it specifically held unenforceable a contract generally like that here, saying (329 U. S. 401):

> "Metallic's obligation to pay royalties and its agreement to sell at prices fixed by Katzinger constituted an integrated consideration for the license grant. Consequently, when one part of the consideration is unenforceable because in violation of law, its integrated companion must go with it."

Defendant in its brief here makes very little effort to come to grips with the clear illegality of Paragraph 9. He says that the agreement of June 3, 1944, "was drafted by the plaintiff, and that Kelly was induced to sign it" and "This mistake [the fixing of prices on Lakso machines], if it was a mistake, was made by the plaintiff—not by Kelly—and the plaintiff should not now be permitted to convert its own error to its own gain" (D.'s Br., p. 16).

There is not a word in this record indicating who "drafted" the agreement or who "induced" whom to sign it.* The fact is it was signed and it constituted more than a "mistake". It was, as has been shown, a positive illegality. But, defendant attempts to avoid its effect by saying that "Plaintiff does not allege that Kelly at any time dictated prices on any machine or that it abided by the prices set forth in the contract of June 3, 1944", relying on *Metals Disintegrating Co.* v. *Reynolds Metals Co.*, 107 F. Supp. 105 (D. Del., 1952) and *Campbell* v. *Mueller*, 159 F. 2d 803 (6th Cir., 1947) as assumedly lending some support to its argument (D.'s Br., pp. 17-18).

The law, however, is to the contrary, and the cases relied on by defendant are readily distinguishable. The correct rule was stated by the Supreme Court in *United States* v. *Trenton Potteries*, 273 U. S. 392, 402 (1927):

> "The trial court instructed the jury in substance that if it found that the respondents did conspire to

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* It is impossible to believe that Paragraph 9 was ever sponsored by plaintiff.

> restrain trade as charged in the indictment, then it was immaterial whether the agreements were ever actually carried out, whether the purpose of the conspiracy was accomplished in whole or in part, or whether an effort was made to carry the object of the conspiracy into effect. The court below recognized that this charge was a correct statement of the general proposition of law that the offensive agreement or conspiracy alone, whether or not followed by efforts to carry it into effect, is a violation of the Sherman Law. *Nash* v. *United States, supra.* . . ."

So also, *United Shoe Mach. Co.* v. *United States,* 258 U. S. 451, 458 (1922); *American Tobacco Co.* v. *U. S.,* 328 U. S. 781, 811 (1946); *F. C. Russell Company* v. *Consumers Insulation Company,* 226 F. 2d 373, 376 (3rd Cir., 1955).

The *Metals Disintegrating* case was not an action to set aside an unenforceable agreement. Instead, it was an action for patent infringement, and the question presented was whether the patent owner had purged itself of an admitted illegality. There, a license agreement had fixed prices on an unpatented product. Prior to the commencement of litigation, however, the parties recognized this illegality, and the licensor attempted to correct it, but the licensee refused to join in such correction. Thereafter, the agreement and other similar agreements were terminated, and the court held that there had been a complete purge (107 F. Supp. 107-108).

The *Campbell* case is to the same effect. It, too, was an action for patent infringement (159 F. 2d 803-804), and there, too, certain price fixing provisions in a license were challenged but, as in the *Metals Disintegrating* case, the challenged provision had been canceled (159 F. 2d 806) and the court held that the misuse had been purged (159 F. 2d 807).

These cases haven't the slightest effect upon the prevailing rule as set forth in the *Trenton Potteries* case.

Paragraph 12 of the Agreement of June 3, 1944, violates the Antitrust Laws and is Invalid.

The court below, with respect to Paragraph 12*, found (D.'s App., pp. 28-29):

> "8. Said agreement, in paragraph 12 thereof, further provided that if Consolidated failed to secure and maintain an exclusive license under said Lakso patents, it would be required to confine its manufacture of cottoners exclusively to machines of the Kelly type and to pay a royalty thereon in the amount of 15%.
>
> "9. Consolidated, in fact, did fail to maintain an exclusive license under said Lakso patents.
>
> "10. The recited provision of said paragraph 12 is a restriction on Consolidated's free right to manufacture and sell devices over which Kelly had no control and with respect to which he had no patent or other right."

Paragraph 12, in restricting plaintiff in the products it can make and sell, is clearly unlawful, as this Court and many others have time and again held. Thus, in *F. C. Russell Co.* v. *Comfort Equipment Corp.*, 194 F. 2d 592 (1952), this Court affirmed the District Court in holding unlawful a provision in plaintiff's distributor contracts whereby the latter agreed not to merchandise or offer for sale any competitive merchandise. In the lower court's decision, 97 F. Supp. 784 (N. D. Ill. E. D., 1951), it was said (97 F. Supp. 787):

> "A patentee under a valid patent has a monopoly in the manufacture and sale of the patented product.

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* Paragraph 12 provides as follows: "It is further provided that in the event the Licensee shall fail to secure and maintain an exclusive license under the Lakso patents aforesaid, the royalty of 7½% to be paid to Kelly as herein provided for shall be increased to 15%, and that Licensee shall be obligated to confine its manufacture of Cottoner machines exclusively to machines of the Kelly type unless the Licensor shall otherwise agree to the modification of the provisions of this paragraph" (D.'s App., p. 11).

> One monopoly is enough. If he attempts to limit competition further by such tying in clauses as we have here, the courts will not protect his monopoly."

A similar conclusion was reached by the Court of Appeals for the Third Circuit in the related case of *F. C. Russell Company* v. *Consumers Insulation Company*, 226 F. 2d 373 (1955).

Another and much cited case which is squarely in point is *National Lockwasher Co.* v. *George K. Garrett Co.*, 137 F. 2d 255 (3rd Cir., 1943). There the court held unlawful an agreement not to deal in competing products. The decision adverted to that line of Supreme Court decisions holding generally that "the patentee cannot use his patent monopoly to force upon customers his brand of a non-patented article to be used by the customer in connection with the patented article sold or leased" (137 F. 2d 256), and continued (137 F. 2d 256-257):

> "The patentee in this case is not selling any unpatented goods under a tying-in clause to the licensee. But it is, as the facts are alleged by the defendant, using its patent monopoly to suppress the manufacture of possible competing goods not covered by its patent . . . We think the instant case, on the facts as the defendant represents them, falls within the principle of the cases cited to the extent that the patentee is using the lawful monopoly granted by the patent as a means of suppressing the manufacture and sale of competing unpatented articles. It is not creating for itself a monopoly for unpatented goods, as in some of the cases cited. But it is attempting by means other than that of free competition to extend the bounds of its lawful monopoly to make, use and vend the patented device to the extent where such device would be the only one available to a user of such an article. This monopoly is obviously not covered by the patent. A patentee's right does not extend to the use of the patent to purge the market of competing non-patented goods except, of course, through the process of fair competition.
>
> • • •

> "We think this is enough; enough to show that the plaintiff was using its patent to suppress competition with it by non-patented articles. To the extent that the policy was successful the supply of competing non-patented washers would, of course, disappear."

Still another case of interest here is *McCullough* v. *Kammerer Corporation*, 166 F. 2d 759 (9th Cir., 1948), cert. denied 335 U. S. 813 (1948). There, too, a covenant by a licensee not to deal in articles competitive with the licensed article was held illegal and there, as here, the licensee was an exclusive licensee (166 F. 2d 762). In reaching this conclusion, the court said (166 F. 2d 762):

> "The public, in a system of free competition, is entitled to have the competition of other devices with a patented device and here it is against that public's interest to use the patent to suppress such competition."

So also, *United States* v. *Crown Zellerbach Corporation*, 141 F. Supp. 118, 126-127 (N. D. Ill., 1956); *Park-In Theatres* v. *Paramount-Richards Theatres*, 90 F. Supp. 730 (D. Del., 1950), affd. 185 F. 2d 407 (3rd Cir., 1950); *Chamberlin* v. *Clark Bros.*, 96 F. Supp. 498 (S. D. Cal. C. D., 1951); *Chiplets Inc.* v. *June Dairy Products Co.*, 89 F. Supp. 814 and 114 F. Supp. 129 (D. N. J., 1950 and 1953).

In the light of these cases, there can be no question that Kelly's requirement that plaintiff should not manufacture and sell Cottoners competitive with Kelly Cottoners is illegal.

Again defendant's brief fails to meet the issue of illegality. And again it fails to even refer to the controlling cases. It does make the statement, in entire disregard of those cases, that "there is nothing illegal in a license agreement which requires that the licensee shall not manufacture a competing machine" (D.'s Br., p. 23) and assumes to find support for this statement in *Campbell* v. *Automatic Die & Products Co.*, 162 Ohio 321, 123 N. E. 2d 401 (Sup. Ct. Ohio,

1954); *Steffen* v. *W. J. Schoenberger Co.*, 90 F. Supp. 710 (N. D. Ohio E. D., 1950) and Toulmin's *Antitrust Laws* (Vol. 1, p. 272, copyright 1949).

In the *Campbell* case the assertion of illegality was based solely on an asserted violation of Section 3 of the Clayton Act (123 N. E. 2d 403-404), and that section requires, to establish illegality, not only the doing of a particular act but also that the doing be accompanied by a particular effect. Thus, Section 3 forbids a sale on the condition that the purchaser shall not use competitive goods

> "where the effect of such . . . sale . . . may be to substantially lessen competition or tend to create a monopoly in any line of commerce" (15 U. S. C. § 14).

There is no similar or equivalent provision in the Sherman Act—pertinent here—and there is no requirement, under that law, that an "effect" be spelled out. Thus, the rule of that case is irrelevant here. However, it is interesting that the Ohio court suggested that

> "If Automatic wished to test the legality of the contract, it could and should have brought an action to rescind on the ground of illegality . . ." (123 N. E. 2d 405),

which, of course, is precisely what the plaintiff did in the instant case.

In the *Steffen* case the court held that there were no provisions in the agreement restraining the licensee from the use of competing products. However, the court went on to say that, if such provisions were there, they would "merely prevent recovery" but "would not convert a seemingly valid patent license into an illegal and unenforceable contract" (90 F. Supp. 711). Apparently, that court was not familiar with the rule precluding severability where licensing provisions violated the antitrust laws (*ante*, pp. 8-9).

The quotation from Toulmin (D.'s Br., pp. 23-24) shows on its face that it has no application to the present situation.

This case is not concerned with "the liberty of an individual". On the contrary, it is very much concerned with "protect[ing] the public against unlawful restraints of trade and commerce", which Toulmin says is "the object of the [Sherman] Act".

The Defendant's Brief.

The defendant has set up in its argument a number of straw men about which there is neither dispute nor basis for dispute.

Thus, it says that "The Burden of Showing the Illegality of a Contract is Upon the Party Asserting It, and It Is Not Sufficient Merely to Create Confusion and Suggest Doubt" (D.'s Br., pp. 11-14).

No one in this case challenges that proposition. And plaintiff has fully sustained its burden in showing the illegality of the provisions of Paragraphs 9 and 12 of the agreement of June 3, 1944. Defendant uses its argument on this score, however, as a vehicle for its charge (D.'s Br., p. 13) that "Nowhere in the complaint or in any other pleading does the plaintiff explain" the allegation of the complaint that the agreement "is contrary to law and is unenforceable because it contains provisions which are in violation of the antitrust laws, and that enforcement of the agreement would result in a restraint of trade and an illegal monopoly" (D.'s App., pp. 4-5).

Defendant's objection, made for the first time in this Court, not only is tardy but is utterly unsubstantial. The complaint is "a short and plain statement of the claim showing that the pleader is entitled to relief" in precise accord with Rule 8(a) and 8(e) of the *Rules of Civil Procedure*. In the court below defendant appears to have been fully informed as to the nature of the complaint. In that court defendant did not move for a more definite statement under Rule 12(e) F. R. C. P. Instead, he filed his motion for summary judgment under Rule 56(b) and (c), assert-

ing "that the complaint herein . . . shows that there is no genuine issue as to any material fact, and that the defendant is entitled to the judgment as a matter of law" (Pl.'s App., p. A1).

Defendant also asserts here that "A License Is Not Unenforceable Because Royalties Were Based on Total Sales Regardless of Whether the Patent Was Used" (D.'s Br., pp. 18-20).

There is no issue of this sort in this case, and defendant is entirely in error in its statement that "Plaintiff contends, and the District Court found, that it was illegal for Kelly to receive 7½ per cent of the sale price of machines using the Lakso patent" (D.'s Br., p. 18).

Plaintiff has never denied the validity, standing alone, of the provision which gave Kelly a right to a commission on Lakso machines (D.'s App., pp. 4 & 5), and the District Court did not hold that Kelly's receipt of such commissions was illegal (D.'s App., pp. 26-30).

Another false issue is suggested by defendant's argument that "A Covenant in a License Agreement Requiring the Licensee to Assign Improvement Patents to the Licensor Is Legal and Enforceable" (D.'s Br., pp. 20-21).

The defendant admits that "Plaintiff makes no specific allegation" that the provision (Paragraph 6 of Agreement of June 3, 1944; D.'s App., p. 8) assigning improvements is illegal, but it says that "the District Court implied in its findings of fact . . . that such clause was illegal". Plaintiff made no allegation, specific or otherwise, that such a provision was illegal, and the court did not imply any illegality. Its only finding with respect to this was that it and various other provisions "are integrated considerations for the license granted and are not severable" (Finding No. 11, D.'s App., p. 29).

Finally, defendant argues that "It was Error for the District Court to Find Facts and Enter Conclusions of

Law When No Evidence Was Presented or Heard to Support Such Findings" (D.'s Br., pp. 24-25). Under this heading defendant urges that there is no support in the record here for the court's finding "that the Kelly machine and Kelly patent were unrelated to the Lakso machine or Lakso patents" (D.'s Br., p. 24) and for its finding "that Kelly had no right to prescribe the course of action or to control any other right of the plaintiff with respect to the Lakso machine or patents" (D.'s Br., pp. 24-25).

Both of these contentions are contrary to the fact. On the first point, the Kuhn affidavit states that

> "There is no relationship between Kelly and Lakso, and the Lakso type machines manufactured by Consolidated under the Lakso patents are materially different from the Kelly type machines manufactured by Consolidated under the Kelly patent" (D.'s App., p. 17).

This statement directly supports the court's finding. Its accuracy has never been challenged by the defendant. To the contrary, the defendant in its brief here in essence admits the accuracy of Kuhn's statement in its statement that

> "the plaintiff discovered that a man by the name of Eino E. Lakso, of Fitchburg, Massachusetts, had obtained later dated patents on another machine designed to insert cotton into bottles of a different type, which patents did not infringe the Kelly patent" (D.'s Br., p. 12; see also p. 2).

The second finding complained of—that Kelly had no right to prescribe the course of action of the plaintiff with respect to the Lakso machine or patents—is supported by the provisions of the agreement of June 3, 1944, which assumed to give Kelly such a right (see Paras. 4 & 12, D.'s App., pp. 7-8 & 11), and by the obvious conclusory fact that that agreement could not effectively confer a right which Kelly never had.

Conclusion

There was no dispute below as to any fact, and both parties attested that there was "no genuine issue as to any material fact". Consequently, this was a proper case for summary judgment. The agreement of June 3, 1944, in Paragraphs 9 and 12, was clearly and unambiguously contrary to law and unenforceable. Therefore, the judgment below should be affirmed.

Respectfully submitted,

JAMES P. HUME,
38 South Dearborn Street,
Chicago 3, Illinois.
Attorney for CONSOLIDATED
PACKAGING MACHINERY CORPORATION.

Of Counsel:

JOHN VAUGHAN GRONER,
JAMES D. BOCK,
20 Exchange Place,
New York 5, N. Y.

September 15, 1957.

PLAINTIFF'S APPENDIX

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IN THE

District Court of the United States

NORTHERN DISTRICT OF ILLINOIS

EASTERN DIVISION

CONSOLIDATED PACKAGING MACHINERY CORPORATION,

Plaintiff,

vs.

RICHARD J. KELLY, Executor of the Estate of THOMAS C. KELLY, Deceased,

Defendant.

Civil Action No. 56 C 344

Motion for Summary Judgment

The defendant, Richard J. Kelly, Executor of the Estate of Thomas C. Kelly, deceased by J. Edgar Kelly and Wilfred S. Stone his attorneys, hereby moves the court to enter summary judgment for the defendant in accordance with the provisions of Rule 56(b) and (c) of the Rules of Civil Procedure, for the reason that the complaint herein together with the affidavit of J. Edgar Kelly hereto attached and marked defendant's Exhibit 1 and the exhibit attached to said affidavit marked defendant's Exhibit 2 shows that there is no genuine issue as to any material fact, and that the defendant is entitled to the judgment as a matter of law.

A Memorandum in support of this motion is filed herewith.

RICHARD J. KELLY, Executor of the Estate of Thomas C. Kelly, Deceased

By WILFRED S. STONE
J. EDGAR KELLY
Attorneys for Defendant
111 W. Washington St.
Chicago 2, Illinois

Motion for Summary Judgment

Receipt of copies of the foregoing Motion for Summary Judgment and the affidavit of J. Edgar Kelly attached thereto, together with Memorandum In Support of Motion is acknowledged this 16th day of March, 1956.

JAMES P. HUME

James P. Hume
38 So. Dearborn Street
Chicago 3, Illinois
Attorney for Plaintiff

[Defendant's Exhibit 1, referred to above, is reproduced in defendant's Appendix, pages 14 and 15. Defendant's Exhibit 2, referred to above, is reproduced in defendant's Appendix, pages 6 through 13.]

IN THE

DISTRICT COURT OF THE UNITED STATES

NORTHERN DISTRICT OF ILLINOIS

EASTERN DIVISION

CONSOLIDATED PACKAGING MACHINERY CORPORATION, Plaintiff, *v.* RICHARD J. KELLY, Executor of the Estate of THOMAS C. KELLY, Deceased, Defendant.	Civil Action No. 56 C 344

Motion for Summary Judgment

The plaintiff, CONSOLIDATED PACKAGING MACHINERY CORPORATION, by James P. Hume, its attorney, hereby moves the Court to enter summary judgment for the plaintiff in accordance with the provisions of Rule 56(a) and (c) of the Rules of Civil Procedure, on the ground that the Complaint, the agreement of June 3, 1944, between plaintiff and Thomas C. Kelly, Deceased, marked "Defendant's Exhibit 2", and the affidavit of J. Edgar Kelly, dated March 16, 1956, marked "Defendant's Exhibit 1", show that there is no genuine issue as to any material fact and that the plaintiff is entitled to judgment as a matter of law.

Motion for Summary Judgment

A memorandum in support of this motion will be filed on May 1, 1956, in accordance with the stipulated schedule for briefs filed of even date herewith.

Respectfully submitted,

James P. Hume
James P. Hume
38 S. Dearborn St.,
Chicago 3, Illinois
Attorney for Plaintiff.

April 5, 1956

Receipt of copies of the foregoing Motion for Summary Judgment is acknowledged this 5th day of April, 1956.

J. Edgar Kelly by A. J.

J. Edgar Kelly
111 W. Washington St.,
Chicago 2, Illinois
Attorney for Defendant.

IN THE

DISTRICT COURT OF THE UNITED STATES

NORTHERN DISTRICT OF ILLINOIS

EASTERN DIVISION

CONSOLIDATED PACKAGING MACHINERY CORPORATION,
Plaintiff,

v.

RICHARD J. KELLY, Executor of the Estate of THOMAS C. KELLY, Deceased,
Defendant.

Civil Action
No. 56 C 344

Affidavit

STATE OF NEW YORK }
COUNTY OF NEW YORK }

JAMES D. BOCK, being duly sworn, deposes and says that he is of counsel for the Plaintiff herein and has knowledge of the facts hereinafter set forth:

1. On May 25, 1956, and subsequent to the filing of Plaintiff's "Brief in Support of Consolidated's and in Opposition to Kelly's Motion for Summary Judgment", affiant received a copy of a letter dated May 23, 1956 from Deming, Kelly and Kane by J. Edgar Kelly, addressed to Consolidated Packaging Machinery Corporation, attention of Mr. E. G. Kuhn. A copy of said letter is attached and marked "Plaintiff's Exhibit 1".

2. On June 4, 1956, Mr. Kuhn replied to said letter of May 23, 1956 and a copy of such reply was received by affiant

on June 5, 1956. A copy of the reply is attached hereto and marked "Plaintiff's Exhibit 2".

3. The enclosures referred to in "Plaintiff's Exhibit 2" constituting copies of Consolidated's applications Serial Numbers 474,455 filed December 10, 1954 and 483,377 filed January 21, 1955, are attached hereto and marked "Plaintiff's Exhibits 3 and 4", respectively.

JAMES D. BOCK

Subscribed and sworn to before me this 6th day of June, 1956.

JOHN E. GROTH
Notary Public, State of New York
No. 30-1590350
Qualified in Nassau County
Cert. filed with New York Co. Clerk
Term expires March 30, 1957

Plaintiff's Exhibit 1

Central 6-4378

DEMING, KELLY & KANE
Attorneys at Law
111 West Washington Street
Chicago 2

May 23, 1956

Consolidated Packaging
Machinery Corporation
1400 West Avenue
Buffalo 13, New York

Attention of Mr. E. G. Kuhn

Gentlemen:

As attorneys for Richard J. Kelly, Executor of the Estate of Thomas C. Kelly, deceased, we hereby request that you immediately disclose to us the patent applications described in the last sentence of paragraph 6 of the affidavit of Mr. Edward G. Kuhn dated April 23, 1956, which affidavit is attached to the brief filed on May 1, 1956 in the case of Consolidated etc. v. Kelly, case number 56 C 344.

This request is made in order that we may determine whether these inventions are improvements on the Kelly-type machine, as provided in paragraph 6 of the agreement of June 3, 1944.

Very truly yours,

DEMING, KELLY & KANE

By /s/ J. Edgar Kelly

JEK:aj

Copy to:

MR. JAMES P. HUME
38 South Dearborn St.
Chicago 3, Illinois

MR. JOHN V. GRONER
20 Exchange Place
New York 5, N. Y.

Plaintiff's Exhibit 2

CONSOLIDATED PACKAGING MACHINERY CORP.
1400 West Avenue
Buffalo 13, N. Y.

June 4, 1956

Mr. J. Edgar Kelly
Deming, Kelly & Kane
111 West Washington Street
Chicago 2, Illinois

Dear Mr. Kelly:

I have your letter of May 23 in which you request that we "immediately disclose to (you) the patent applications described in the last sentence of paragraph 6 of the affidavit of Mr. Edward G. Kuhn dated April 23, 1956 . . ."

The agreement of June 3, 1944 between Thomas C. Kelly and Consolidated Packaging Machinery Corporation provides in paragraph 6 that, if Consolidated "shall develop and invent any improvements of a patentable order on the Kelly type machine, the same shall be promptly disclosed to the Licensor . . ."

Consolidated has heretofore prosecuted to issue three patents, viz., Nos. 2,501,770; 2,596,813 and 2,691,473, and at the present time has two pending applications, viz. applications Serial Nos. 474,455 filed December 10, 1954 and 483,377 filed January 21, 1955. These applications are the patent applications described in the last sentence of paragraph 6 of the affidavit of Mr. Edward G. Kuhn dated April 23, 1956. Since neither the issued patents nor the pending applications related to "improvements of a patentable order on the Kelly type machine" but instead relate to a Cottoner of radically different type, there is no obligation to Consolidated to disclose to you anything contained therein.

Plaintiff's Exhibit 2

Notwithstanding this fact, Consolidated desires, in this as in its other relations with you, to maintain an attitude of complete frankness. Therefore, I enclose for your information but *not* in compliance with any provisions of the contract, copies of the named applications. It is my understanding that you have already received copies of the issued patents.

Yours very truly,

CONSOLIDATED PACKAGING MACHINERY CORP.

E. G. Kuhn, President

CC. J. D. Bock
T. E. Tate

RH

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JOHN T. FEY, Clerk

In the

United States Court of Appeals

For the Seventh Circuit

No. 12071

RICHARD J. KELLY, Executor of the Estate of THOMAS C. KELLY, Deceased, *Plaintiff-Appellant,* vs. **INTERNATIONAL PAPER COMPANY,** *Defendant-Appellee.*	Appeal from the United States District Court for the Northern District of Illinois, Eastern Division. Honorable **Win G. Knoch,** Judge Presiding.

BRIEF AND APPENDIX FOR APPELLANT.

J. EDGAR KELLY,
111 W. Washington Street,
Chicago, Illinois,

WILFRED S. STONE,
134 S. La Salle Street,
Chicago, Illinois,
Attorneys for Plaintiff-Appellant.

FILED
AUG 13 1957

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In the

United States Court of Appeals

For the Seventh Circuit

No. 12071

RICHARD J. KELLY, Executor of the Estate of THOMAS C. KELLY, Deceased, *Plaintiff-Appellant,* vs. **INTERNATIONAL PAPER COMPANY,** *Defendant-Appellee.*	Appeal from the United States District Court for the Northern District of Illinois, Eastern Division. Honorable **Win G. Knoch,** Judge Presiding.

APPELLANT'S BRIEF.

How This Appeal Arises.

The complaint charges the defendant with:

COUNT I

forcing Consolidated Packaging Machinery Corporation, of Buffalo, New York, to break a patent license contract with the plaintiff's predecessor in title (App. 3-7) and

COUNT II

monopolizing the cottoner machine and cotton wadding business in the United States, to the plaintiff's damage (App. 21-26).

The defendant moved for summary judgment. This motion was granted by the District Court as to Count I on the ground that the license contract was illegal, as decided by the same court in presently pending Appeal No. 12070, and that no action lies for inducing breach of an illegal contract (App. 58, 59). The Judge's Memorandum stated the grounds of invalidity:

1. Consolidated "was required to maintain an exclusive license under patents wholly unrelated to that of this plaintiff's decedent Kelly."

2. On loss of such contract, Consolidated must confine its manufacturing to Kelly type machines.

3. The contract "prescribed prices not only for machines of the Kelly type, but also for the machines made pursuant to the unrelated patents."

4. That royalties "be paid the decedent on both types." The court also said that the objectionable portions of the contract were "an integrated part of the contract and not severable."

The court said nothing about Count II.

The plaintiff appeals from this order.

A STATEMENT OF THE FACTS.

Thomas C. Kelly, in 1939, was a long-time resident of metropolitan Chicago, and had been a manufacturer's representative for Consolidated Packinging Machinery Corporation, of Buffalo, New York, for approximately twenty years (App. 18). On his own time in Chicago, he conceived and had built a cottoner for automatically putting cotton in a straight-sidewall bottle. While he had a machine shop build two or three of these cottoners which he sold to Abbott Laboratories, he was a salesman and did not engage in manufacturing. He was granted United States Letters Patent No. 2,171,572 on September 5, 1939 (App. 8).

On December 12, 1939, Kelly exclusively licensed Consolidated under his Patent No. 2,171,572 to manufacture a cottoner for straight-sidewall bottles. Consolidated agreed not to manufacture any other cottoner and to pay a 15 percent royalty (App. 8, 9, 13).

In 1943, Consolidated discovered that Eino E. Lakso had invented and obtained two good patents on a finger device which would insert cotton under the shoulders of standard bottles—a much larger market. This device was mounted on a machine that was not automatic.

On November 4, 1943, Lakso signed an exclusive license agreement with Consolidated (App. 36-39). Consolidated could not, and did not, sign at that time.

On June 3, 1944, Kelly and Consolidated replaced their 1939 contract with one containing the following provisions:

(a) In consideration for releasing Consolidated "from the obligations of the license agreement of December 12, 1939 to abstain from the manufacture and sale of any cot-

toners other than those manufactured and accounted for under the Kelly patent aforesaid * * * for the reduction in the amount of royalty to be paid to the Licensor for the manufacture and sale of Cottoners of the Kelly type, * * * the Licensee shall pay to the Licensor a commission of 7½% on the gross selling price of all such Lakso machines or parts thereof to be accounted for and paid at the time and in the manner hereinafter provided." (App. 8, 9.)

(b) By paragraph 5: "The Licensee agrees in consideration for the license granted under the Kelly patent aforesaid to pay to the Licensor on each machine, a royalty in the amount of 7½% * * *." (App. 9.)

(c) By paragraph 6: "If the Licensee * * * shall * * * invent any improvements of a patentable order on the Kelly type machine, * * * a patent application shall be made * * *, and such application shall be forthwith assigned to the Licensor and incorporated within the provisions of this agreement." (App. 10.)

(d) By paragraph 8: "The Licensee * * * agrees that within ten days of the receipt of the purchase price * * * on account of the sale of any machine, or parts, of whichsoever type covered by the provisions of this agreement, it will * * * make payment therefor of the amount due, * * *." (App. 11.)

(e) By paragraph 9: "The minimum price per machine of either type shall be Two Thousand Five Hundred Dollars * * * and * * * the maximum price on standard machines shall be Five Thousand Dollars * * * unless the machines embody special features of construction, * * *." (App. 11.)

(f) By paragraph 12: "* * * in the event the Licensee shall fail to secure and maintain an exclusive license under the Lakso patents aforesaid, the royalty of 7½% to be paid to Kelly as herein provided for shall be increased to 15%,

and * * * Licensee shall be obligated to confine its manufacture of Cottoner machines exclusively to machines of the Kelly type * * *." (App. 12.)

Thereafter, on June 13, 1944, Consolidated signed the Lakso license agreement (App. 39).

Kelly's dealings in both the 1939 license and the 1944 license were with Mr. Leonard and Mr. Kuhn, who were president and vice president, respectively, of Consolidated

Thereafter, and until February, 1956, defendant paid Kelly or the plaintiff 7½ percent on all machines, under paragraph 8 of the agreement (App. 33).

On February 20, 1946, Thomas E. Tate, an employee of the defendant, International Paper Company, was placed on the board of directors of Consolidated Packaging Machinery Corporation (App. 29).

Within a few months, Kelly received a letter from Kuhn stating that in Tate's Opinion the contract of 1944 was illegal because of paragraph 9, the price fixing paragraph, but that this could be remedied by a new contract which was submitted. This contract contained an additional significant difference from the 1944 contract, namely: it omitted paragraph 6 which required Consolidated to convey improvement patents on the Kelly type machine to Kelly.

On December 13, 1946, Kelly wrote Kuhn saying that, "If our 1944 agreement is unenforcible—and you say that it is unenforcible—that is sufficient reason to get rid of it and I think we should do so by mutual consent." (App. 47.)

During the next few months through April 24, 1947, Kuhn and Kelly carried on correspondence in which it is evident that whatever Kuhn says, he is saying on Tate's order (App. 49-58).

On April 24, 1947, Kelly wrote Tate at the International Paper Company offices in New York City asking for an interview (App. 55).

On April 25, 1947, Tate wrote Kuhn, of Consolidated, in which he said:

> "I can't imagine why Kelly has written to me in connection with this matter rather than directly to you, and accordingly, I would appreciate it if you would reply to his letter." (App. 56.)

The last correspondence of this series which terminated without altering the 1944 contract is dated April 28, 1947.

On April 9, 1947, an employee of Consolidated filed an improvement patent on cottoner machines. This fact was not disclosed to Kelly. The same employee filed another on July 3, 1948 and a third was filed on January 23, 1951 (App. 35). Kelly was not informed of any of these under paragraph 6 of the agreement.

From 1946 to 1953, Tate and the defendant, International, brought continuous and heavy pressure upon Kuhn to stop paying Kelly royalties under the 1944 agreement, not on the ground that it was invalid, but on the ground that there was no occasion to pay more than the minimum required by paragraph 7 of the agreement.

During this period of time, Kuhn recognized that Tate and International were seeking to violate the spirit of the agreement of 1944. On November 30, 1953, he wrote Tate:

> "Your observations and comment with respect to the situation are altogether valid when based upon those areas in which your main interest naturally lies. In other important respects, however, we would hesitate to disturb the existing arrangement so long as the economic advantages to the purchaser justify a price which amply absorbs the cost of our existing royalty arrangement. • • •

"I think you will agree, Tom, that these are circumstances which well justify the important relationships whose value you are hardly in position to appraise." (App. 17, 18.)

At least as late as November 30, 1953, the defendant, International Paper, was operating a one hundred percent monopoly in cottoners (App. 17).

Kelly died on June 2, 1955.

On February 20, 1956, Consolidated stopped paying royalties to the plaintiff (App. 33) and the New York law firm of the defendant instituted suit on behalf of Consolidated to have the contract of June 3, 1944 declared illegal, Appeal No. 12070.

On March 1, 1956, the Lakso-Consolidated license was terminated (App. 42) thereby bringing paragraph 12 of the Kelly-Consolidated agreement into effect, and obligating Consolidated to pay royalties of 15 percent to Kelly.

SUMMARY OF ARGUMENT.

I. The burden of showing the illegality of a contract is upon the party who asserts it. The defendant has not sustained this burden.

II. A patentee licensor may limit the sales and the price charged by his licensee for the patented article.

CONTESTED ISSUES.

The plaintiff contends that the defendant illegally interfered with and induced Consolidated Packaging Machinery Corporation to cancel its contract with plaintiff. The defendant contends that it had a right to do as it did, because the contract between the plaintiff and Consolidated was illegal.

The single issue, therefore, is whether that contract between this plaintiff and Consolidated is legal and enforceable.

PROPOSITIONS OF LAW RELIED UPON.

I.

The burden of proving illegality is upon the party who asserts it.

II.

A patentee in a license may limit the sale and the price.

United States v. *General Electric Co.*, 272 U. S. 476.

III.

A specific covenant not to manufacture a competing product is enforceable when contained in an exclusive license agreement.

17 C. J. S., page 639, Contracts, Section 255.

Mechanical Ice Tray Corporation v. *General Motors Corporation*, 144 F. 2d 720.

ARGUMENT.

I.

The Defendant's Burden.

While concededly the burden in an appeal is upon the appellant, where the decision below rests exclusively on an affirmative defense, in this case, illegality, an appellant only confuses the issues by attempting to anticipate what decisions the appellee may rely on. We, therefore, will limit our argument to the judge's decision, relying upon *United States* v. *General Electric Co.*, 272 U. S. 476, for the substantive law and upon the general principle that he who asserts illegality must prove it.

The Ultimate Facts.

If this case is tried, these will be the ultimate facts. Kelly exclusively licensed Consolidated, a small company run by a Mr. Leonard and a Mr. Kuhn, to build an automatic machine which could put cotton only in straight walled bottles. The company agreed to pay a 15 percent royalty and not to manufacture a non-infringing device. Several years later, the company discovered that another man, Eino E. Lakso, had a non-automatic machine with cotton loading fingers that could tuck cotton under the shoulders of standard bottles. By putting this attachment on the turret of the Kelly machine, any kind of a bottle could be cottoned. Consolidated, however, could not afford to pay Lakso a royalty on top of Kelly's 15 percent.

Kuhn, therefore, asked Kelly for a substitute agreement, representing that Kelly would make a great deal more money on a 7½ percent royalty if Consolidated could

sell machines that could fill shouldered bottles, provided Consolidated paid Kelly on all cottoners. Kelly granted this request by signing a revised contract on June 3, 1944, which gave him two safeguards:

1. Kelly was to get any improvements made by Consolidated on Kelly (automatic) type cottoners (App. 10); and
2. If a license was not secured from Lakso, then Consolidated was to resume paying Kelly 15 percent and not to make a non-infringing device (App. 12).

In drawing up this contract, in order to balance out the considerations, paragraph 5 gave Kelly a 7½ percent royalty on Kelly type machines, and paragraph 4 gave him 7½ percent royalty on Lakso machines (App. 9), but the parties realized that there would be just one machine which would consist of mounting the Lakso filling fingers on the turret of the Kelly machine which Consolidated had been producing for some years. This is brought out in the accounting paragraph numbered 8 (App. 11), and royalties were paid to both Kelly and Lakso.

With things going nicely, on February 28, 1946, a lawyer named Tate, on the payroll of the defendant, went on the board of Consolidated (App. 29). International, in the squeeze of 1931, had acquired stock of Consolidated, and by 1946 controlled 58 percent of the outstanding stock (App. 29). Tate discovered two things: (1) that a Consolidated employee named Gantzer was working on patentable improvements on the Kelly type machine; and (2) that under the contract these improvements would go to Kelly, thereby extending the life of his contract. Tate, therefore, announced that the contract was illegal. He was resisted by Kuhn, but forced Kuhn to so notify Kelly and to offer a new exclusive license to Kelly, leaving out, however, the promise to convey patentable improvements to Kelly. Kelly, in a frank fashion, said that if they didn't want the license,

he would cancel it (App. 47). He would go into competition with them.

After several months of correspondence and interviews, the subject was dropped, but one important thing did happen: The Consolidated employee, Gantzer, in 1947 filed a patent application on an improvement on the very machine which basically contained many of the same parts that the first machine had under the 1939 contract. Gantzer assigned that application to Consolidated, and neither Consolidated nor Tate disclosed its existence to Kelly. Two more patent applications were subsequently filed.

Tate continuously tried to rid Consolidated of this contract with Kelly (App. 16) until the issuance of the first Gantzer patent assigned to Consolidated.

Kelly died without knowing of the issuance of these Gantzer patents.

This charge of illegality is a subterfuge utilized by Tate and the defendant to save itself more than $250,000 in royalties now that the principal witness on plaintiff's side of the controversy is dead and the Gantzer patents have been discovered.

Whatever illegality there is here was created by the defendant.

II.

Price Fixing.

The alleged price fixing clause (App. 11) does not invalidate the contract, first, because it relates to a patented item, and, second, because it is really only a means for protecting the amount of royalty the licensor will receive, and does not restrain anyone.

The general rule is that any restraint in a contract which does not violate the antitrust laws is valid. When the

restraint is price fixing, if the goods are unpatented and the restraint extends beyond one sale, the restraint is *per se* invalid and cannot be enforced. However, where the article is patented, the price may be fixed, if the fixing is reasonably adopted to secure for the patentee his royalty. This is well stated in the case of *United States* v. *General Electric Co.*, 272 U. S. 476, where the court said, at page 490:

> "* * * If the patentee goes further and licenses the selling of the articles, may he limit the selling by limiting the method of sale and the price? We think he may do so, provided the conditions of sale are normally and reasonably adapted to secure pecuniary reward for the patentee's monopolies. One of the valuable elements of the exclusive right of a patentee is to acquire profit by the price at which the article is sold."

Testing the facts in this case under the General Electric rule, fixing the price of one machine at not less than $2,500 and on another at not more than $5,000, and allowing Consolidated to set prices on special applications, is "normally and reasonably adapted to secure pecuniary reward for the patentee's monopoly." The parties had the problem of protecting Kelly when he was to receive a royalty based on a percentage of the price. If Consolidated could give the articles away, Kelly might get nothing. Hence, a minimum price was established. On the other hand, if Consolidated could charge so exorbitant a price that no one would buy, again Kelly might get nothing. By either tactic, Consolidated could squeeze Kelly until he consented to a new contract—there being only a small minimum annual royalty. Paragraph 9 of the contract of June 3, 1944 falls squarely within the General Electric rule, and until the defendant cites a case reversing that decision, we submit that the contract is not invalid by reason of paragraph 9.

This leads to the second point, namely, that the $2,500 and $5,000 price clause is not a price fixing clause at all. It is simply there for the purpose of making certain that Kelly gets at least $187.50 on each machine, and that Consolidated not defeat sales by an excessive price. The range was intended to allow Consolidated to fix the price, and it did (App. 54).

III.

Maintaining Exclusive License Under Unrelated Patents.

The District Court thought that the contract was illegal because it required Consolidated "to secure and maintain an exclusive license under patents wholly unrelated to that of this plaintiff's decedent Kelly, * * *." A reading of paragraph 12 (App. 12) of the license agreement shows that this statement is wrong. Consolidated was not required to do anything. If Consolidated did not do a certain thing, then the provisions of the old license agreement came back into force by paragraph 12.

This statement is also unfounded, because the District Court said the Lakso patents are wholly unrelated to those of Kelly. There is nothing in this record, the patents not having been introduced, which justifies this statement. Apparently, this is a material fact upon which the judge is obliged to rely and concerning which there is a great dispute. Granted that Mr. Kuhn says in one of his affidavits that there is no relationship here; this has no persuasive value at all. An examination of the Kelly, Lakso and Gantzer patents would disclose that the Lakso patent is directed to fingers for inserting cotton, and that this inserting station is to be mounted on the commercial machine shown in the Kelly patents. It would take no more than a glance at the Gantzer patent to recognize that it is an improvement as a whole on the Kelly machine.

We submit, therefore, that this case should be reversed, because the judge has relied upon a material fact upon which there is a very genuine controversy—it is the whole controversy. The Kelly license was earning almost twelve thousand dollars a year at the time Consolidated stopped paying. This amount was steadily rising. If the contract is carried to the expiration of the last Gantzer patent in 1971, there will be substantially over $200,000 due plaintiff, and if the two new patent applications are included, there will be still more due.

Manufacturing Exclusive Kelly Type Machines.

The third ground for the trial judge's decision was that when Consolidated canceled the Lakso contract after this suit was started, thereby rendering effective paragraph 12, which obligated Consolidated to pay a royalty of 15 percent and to stop making any machines other than Kelly machines, the agreement became invalid (App. 59). The plaintiff submits that there can be no objection to a clause which forbids a licensee to manufacture a competing product—particularly where the license is exclusive. To hold otherwise is to make the patent grant illusory. When men are gathered to work out a license arrangement, the object of a licensor is to obtain a stiff minimum annual royalty. This puts pressure upon the licensee to produce the patented product and sell it, and at the same time, he has no interest in a competing product. However, it is hard to induce a company to take on a minimum, because one does not know at the beginning whether the device will be successful or not; that can only be determined after a real effort has been made. As all lawyers know, a clause which says "he will use his best efforts" is of little value, unless it implies that he will not sell a competing product. While there may be doubt as to whether the courts will enforce an implied covenant on the part of an exclusive licensee

to refrain from entering into competition, there is no doubt when that covenant is specifically expressed in the license agreement. (*Mechanical Ice Tray Corporation* v. *General Motors Corporation*, 144 F. 2d 720.)

Consequently, one requires the licensee to do one of two things: Either to make only a product that infringes the claims of the licensed patent, or requires him to pay on all machines made for the same general purpose whether they are licensed or not.

This record shows both types. In the Lakso agreement, paragraph 7 requires Consolidated to pay a 7½ percent royalty on "all apparatus * * * for inserting packing in containers—regardless of the type of apparatus or machine and whether or not such apparatus or machines conform to said patents, * * *" (App. 37, 38). In the Kelly-Consolidated agreement, the other method was used for protecting the licensor, namely, that if Consolidated failed to do what it said it would do in order to get this contract, then it would go back to manufacturing exclusively Kelly type machines (App. 12).

Of the two ways of protecting the licensor, t. (in the Lakso agreement is by far the best and is generally in use in this country.

The trial judge says that this is illegal. The general rule is that any restriction made by one party in dealing with another is legal unless it creates a restraint in trade. There is no proof of any restraint here. Kelly never was in the business of manufacturing. There is nothing in this agreement that keeps anyone from building a non-infringing cottoner. We close this subject with 17 C. J. S., page 639, Contracts 255:

> "Agreement providing that one person will do business only with another or in a certain way, or will carry on business in a certain premises or use such

> premises in a certain way, and other similar agreements are ordinarily valid if not in unreasonable restraint of trade."

If there is a restraint of trade here, it is proven only by the letter Consolidated's president wrote on November 30, 1953, in which he says:

> "—In other important respects, however, we would hesitate to disturb the existing arrangement so long as our position on the Kottoners is non-competitive * * *" (App. 17).

The plaintiff charges that there is a monopoly here, not only in cottoner machines, but in the cotton wadding. We think the cottoner machines are sold by Consolidated and the wadding by some other of the many subsidiaries of the defendant. This restraint, however, is not the result of this contract between Kelly and Consolidated. It is the result of the defendant's conduct.

Conclusion.

In conclusion, with respect to Count I, plaintiff submits that it is immaterial whether the defendant, International, is regarded as one interfering with a contract between two other parties, or whether we regard International as the real party in wrongdoing. In either case, it is liable. A company which owns only 58 percent of the stock in another has no business involving the other in a series of acts which may violate the antitrust laws. Whether Count I is couched as an interference with an existing contract, or whether it is couched as a direct charge against the real actor, should be immaterial. This is the only count discussed by the judge.

As for Count II, the District Court said nothing about it, and apparently feels that the complaint is sufficient if the contract is enforceable. It certainly should be sufficient,

because paragraph 30 thereof is almost a verbatim copy of Section 2 of 15 U. S. C.

The judgment of the District Court should be reversed because there is nothing in this contract that restrains trade, and if there is nothing in the contract that restrains trade, then all of its provisions are legal. They are adapted to attain the end of adjusting the rights of the parties and preventing overreaching by either.

Plaintiff, therefore, respectfully requests that the judgment of the District Court be reversed and the cause remanded.

Respectfully submitted,

J. Edgar Kelly and
Wilfred S. Stone,
Attorneys for the Plaintiff-Appellant.

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1 IN THE UNITED STATES DISTRICT COURT

For the Northern District of Illinois,

Eastern Division.

Richard J. Kelly, Executor of the estate of Thomas C. Kelly, *Plaintiff*,
vs.
International Paper Company, *Defendant*.
} Civil Action No. 56 C 357

PREFIX TO RECORD.

1. Complaint for compelling breach of contract was filed February 21, 1956.

2. Richard J. Kelly, Executor of the estate of Thomas C. Kelly, is the plaintiff, and International Paper Company, a corporation, is the defendant. There has been no change in these parties.

3. Plaintiff filed an amendment to his complaint March 14, 1956.

4. Plaintiff filed motion for summary judgment March 14, 1956.

5. Defendant filed motion to dismiss or for summary judgment April 5, 1956.

2 6. Defendant filed motion for oral argument November 5, 1956.

7. No oral argument was had; there was no trial and there was no reference to a Commissioner or Special Master.

8. Memorandum and order of Judge Win G. Knoch granting summary judgment in favor of the defendant entered April 30, 1957.

9. Appeal was taken by the plaintiff May 22, 1957.

3 **Pleas had at a regular term of the United States District Court for the Eastern Division of the Northern District of Illinois begun and held in the United States Court Rooms in the City of Chicago in the Division and District aforesaid on the first Monday of April, being the 1st day thereof, in the Year of Our Lord One Thousand Nine Hundred Fifty-Seven and of the Independence of the United States of America, the 181st Year.**

Present:

Honorable John P. Barnes, Chief District Judge.
Honorable William H. Holly, District Judge.
Honorable Philip L. Sullivan, District Judge.
Honorable Michael L. Igoe, District Judge.
Honorable William J. Campbell, District Judge.
Honorable Walter J. LaBuy, District Judge.
Honorable J. Sam Perry, District Judge.
Honorable Win G. Knoch, District Judge.
Honorable Julius J. Hoffman, District Judge.
Roy H. Johnson, Clerk.
William W. Kipp, Sr., Marshal.

Monday, April 29, 1957.

Court met pursuant to adjournment.

Present: Honorable Win G. Knoch, Trial Judge.

4 IN THE UNITED STATES DISTRICT COURT.
• • (Caption—56-C-357) • •

COMPLAINT FOR COMPELLING BREACH OF CONTRACT.

(Filed Feb. 21, 1956. Roy H. Johnson, Clerk.)

Now comes Richard J. Kelly, Executor of the Estate of Thomas C. Kelly, pending in the Probate Court for DuPage County, Illinois, and for his complaint states:

1. Plaintiff is the Executor of the Estate of Thomas C. Kelly, who died testate in DuPage County, Illinois, on the 2nd day of June, 1955. Said estate is being probated by said court, File No. 16934. Letters Testamentary were issued on the 9th day of June, 1955 to the plaintiff. Thomas C. Kelly, deceased, is hereinafter referred to as "Kelly".

2. The defendant, International Paper Company, hereinafter referred to as "International", is a corporation
5 organized under the laws of the State of New York, and has offices at 222 West Monroe Street, Chicago, Illinois.

3. Plaintiff is a citizen of the State of Illinois, and the defendant it a citizen of the State of New York. The matter in controversy exceeds, exclusive of interest and costs, the sum of three thousand dollars.

4. The Consolidated Paper Company, hereinafter called "Consolidated", is a corporation organized under the laws of the State of New York, and has offices in Buffalo, New York.

5. International owns corporate stock of Consolidated.

6. By a contract dated December 12, 1939, Kelly licensed Consolidated under Kelly patent No. 2,171,572, dated September 5, 1939, to manufacture and sell cottoners. Consolidated agreed not to manufacture a competing machine.

7. By a contract dated June 3, 1944, Kelly and Consolidated replaced the 1939 contract with one also licensing said Kelly patent, but replacing the prohibition to sell competing machines with a promise to assign improvement patents to Kelly. This contract is presently in force and a copy is attached hereto as PX-1. The paragraph to assign patentable improvements is 6 found on page 4.

8. The contract of December 12, 1939 and the contract of June 3, 1944 were negotiated by Kelly with E. G. Kuhn, president of Consolidated.

9. In 1945-46, the defendant International, specifically its house attorney Thomas E. Tate, endeavored to induce Kelly to accept a new contract which lacked Paragraph 6 of PX-1, which provides for the assignment of patents on improvements on the Kelly machine to Kelly. Kelly declined.

10. The defendant International, knowing that Consolidated had already made improvements on the Kelly type machine, and that Consolidated under said paragraph 6 of PX-1 was obligated to file patent applications, compelled Consolidated to conceal the fact that the following patent applications were filed and issued to Consolidated:

Filing Date	Patent No.	Patent Date	Inventor
April 9, 1947	2,596,813	May 13, 1952	Gantzer
July 3, 1948	2,501,770	March 28, 1950	Gantzer
Jan. 23, 1951	2,691,473	Oct. 12, 1954	Gantzer

Kelly, at the time the first of these patents was issued namely, 1950, was 74 years of age and retired. To the day of his death, he did not know of these patents.

11. In 1953, the defendant International, by this time either in control or nearly in control of Consolidated, attempted to force Kuhn, the president of Consolidated, to stop paying Kelly under the contract on the ground that

the contract was illegal. Kuhn refused. Such correspondence as we have between Kuhn of Consolidated and Tate of the defendant International is attached hereto as PX-2 and PX-3.

12. The defendant International, upon Kelly's death in June, 1955, through Tate, suggested to Kuhn that he notify the Kelly Estate that all payments made to Kelly in recent years were gratuitous and that no further payments would be made. A copy of this correspondence is attached hereto as PX-4 and PX-5.

13. Upon a threat to force arbitration under the arbitration clause, paragraph 13, of the 1944 agreement, PX-1, Consolidated continued to pay royalties through December, 1955.

8 14. In December 1955, counsel for the Estate of Kelly, discovered the existence of the three patents listed above; the latest of these three patents expires October 12, 1971, and this extends the 1944 contract, PX-1, to that date. Plaintiff demanded conveyance of the patents by Consolidated. Kuhn of Consolidated replied that he was obliged to refer the matter to the defendant, International. Tate of International then wrote plaintiff's attorney that John V. Groner, of the law firm of Fish, Richardson & Neave of New York City, would reply for Consolidated. Upon information and belief, Fish, Richardson & Neave are retained as counsel by International and are not retained by Consolidated.

15. On February 20, 1956, Groner communicated through the law firm of Wilkinson, Huxley, Byron & Hume, 38 South Dearborn Street, Chicago 3, Illinois, by serving a copy of the complaint in Civil Action 56 C 344, Consolidated Packaging Machinery Company *vs.* Richard J. Kelly, Executor of the Estate of Thomas C. Kelly, Deceased.

16. International has forced Consolidated to commit

a breach of its contract of 1944, PX-1, by the filing
9 of this suit, thereby cutting off the income of the plaintiff from Consolidated and preventing Consolidated from conveying the patents, all to the plaintiff's damage.

17. Plaintiff charges that the defendant International has converted the patents to its own use.

18. The defendant International has acted with malice because it was apprised of the fact that the Kelly Estate has no assets excepting this contract, and this suit has been filed for the purpose of exhausting that estate and delaying an arbitration proceeding so that the Kelly widow and heirs would receive nothing.

Wherefore, the plaintiff prays that:

1. International, its officers, employees, agents and servants, be enjoined forthwith from in any way prosecuting or contributing to the prosecution of the cause of action set out in Civil Action 56 C 344, Consolidated *vs.* Kelly, Executor, in this court.

2. An accountant approved by this court make a detailed accounting of all cottoners and all parts of cottoners manufactured by and sold by Consolidated from
10 1944 to date, and that royalties at the rates set forth in the 1944 agreement, PX-1, be computed upon any cottoners or parts upon which royalty has not been computed to date.

3. International has converted the patents to its own use, and that damages be computed by determining the rate of yearly increase in royalties for the years 1945 through 1955, and that this rate of increase be applied year by year to the period commencing January 1, 1956 through October 12, 1971, using as the amount for the base year 1956, the amount of royalties paid for the best year 1945 to 1955, and that judgment be entered now for the total to come due over said period.

4. The defendant be required to pay the costs and disbursements of this suit.

5. The court grant to plaintiff such other and further relief as shall be just.

Richard J. Kelly, Executor of the
Estate of Thomas C. Kelly,
By: J. Edgar Kelly,
111 West Washington Street,
Chicago 2, Illinois,
CE. 6-4378,

Wilfred S. Stone,
134 South La Salle Street,
Chicago 3, Illinois,
RA. 6-4180.

11 Plaintiff's Exhibit No. 1.

License Agreement.

This Agreement entered into this 3rd of June, 1944 between Thomas C. Kelly of Hinsdale, Illinois, hereinafter called the "Licensor", (which expression shall include his heirs, executors, administrators, and assigns, where the context so requires or admits), and Consolidated Packaging Machinery Corporation, a New York corporation of Buffalo, New York, hereinafter called "Licensee", (which expression shall include its successors and assigns, where the context so requires or admits).

Witnesseth:

Whereas, the parties hereto did on the 12th day of December, 1939 enter into a license agreement respecting the manufacture of Cotton Wadding machines hereinafter referred to as "Cottoners" or "Kottoners", under and in

accordance with Letters Patent of the United States No. 2,171,572 of September 5, 1939; and

Whereas, it is the desire of the respective parties to adjust and satisfy all claims and demands arising out of the license contract aforesaid, and to include under the provisions of the present contract, the patent above
12 (No. 2,171,572) listed, and to make full provision for the future manufacture and sale of Cottoners on the basis defined in this present agreement;

Now, Therefore, in consideration of the mutual covenants, the parties do agree as follows:

1. It is hereby agreed between the parties hereto that all outstanding claims and demands arising out of the contract of December 12, 1939 shall be merged into and adjusted under the terms and provisions of the present agreement.

2. The Licensor does hereby grant to the Licensee an exclusive license under the patent aforesaid throughout the United States and its territorial possessions and in all foreign countries wherein patent protection may be obtained subject to the terms and conditions of this agreement, and it is further provided that in the event the Licensor shall make additional improvements in Cotton Wadding machines, the Licensee shall have the privilege of extending the present license to such improvements without the payment of additional royalty or remuneration other than that set forth in the present agreement.

3. The Licensee accepts the above license and agrees that it will devote their best efforts in promoting the advertising, building, sale and installation of Cottoners in conformity with the provisions of this contract and in increasing the demand therefor subject to the conditions hereinafter stated.

13 4. In consideration for releasing the Licensee from the obligations of the license agreement of December

12, 1939 to abstain from the manufacture and sale of any Cottoners other than those manufactured and accounted for under the Kelly patent aforesaid, and as consideration for the adjustment of all outstanding claims based upon the provisions of said prior contract, and in consideration for the granting to the Licensee of the right to manufacture other Cottoners of a type known as Lakso Cottoners and covered by United States Letters Patent No. 2,269,722 and No. 2,304,932, and in consideration for the reduction in the amount of royalty to be paid to the Licensor for the manufacture and sale of Cottoners of the Kelly type, it is hereby agreed that on each and every Cottoner of the Lakso type manufactured and sold, the Licensee shall pay to the Licensor a commission of 7½% on the gross selling price of all such Lakso machines or parts thereof to be accounted for and paid at the time and in the manner hereinafter provided. On the basis of the same consideration previously mentioned in this paragraph and in addition to the commissions on Lakso type machines, and the royalties to be paid on the Kelly type machines as hereinafter specified, the Licensee agrees to pay on each of the first ten machines sold, of whichever type, the sum of Two Hundred Fifty Dollars ($250.00) per machine, exclusive of royalties and commissions.

14 5. The Licensee agrees in consideration for the license granted under the Kelly patent aforesaid to pay to the Licensor on each machine, a royalty in the amount of 7½% of the gross selling price of said machine together with such parts as are included in the original sale; it being understood and agreed that said royalty shall cover any improvements which may be made on the Kelly type of machine, and the Licensor agrees to promptly disclose such improvements, if any, to the Licensee and cooperate with the Licensee in obtaining patent protection therefor in the event the Licensee desires to include such

improvements within the provisions of this agreement; it being agreed that the expense of obtaining such patent protection shall be borne equally by the parties hereto.

6. It is further agreed that if the Licensee through members of its organization shall develop and invent any improvements of a patentable order on the Kelly type machine, the same shall be promptly disclosed to the Licensor and if patentable, a patent application or applications shall be made to protect the same, and such application shall be forthwith assigned to the Licensor and incorporated within the provisions of this agreement.

7. In order to keep this contract in full force and effect, the Licensee guarantees to the Licensor a minimum amount in royalties on Kelly machines and commissions on Lakso machines in the aggregate of not less than Six Hundred Dollars ($600.00) for each six months period to be reckoned as of July 1st and January 1st of each year, and further guarantees the manufacture and sale during each yearly period reckoned from July 1st of not less than three machines of either or both types as evidence of reasonable diligence in the carrying out of the terms and provisions of this agreement, unless prevented from so doing by government restrictions, in which event said obligation to build shall resume six months from the removal of such restrictions; it being understood and agreed that such obligation to manufacture is independent of the payment of the guaranteed minimum of Six Hundred Dollars ($600.00) for each half yearly period and that both of such guarantees shall be maintained. The Licensee agrees to keep proper books of account wherein shall be entered a full and complete record of all sales of Cottoner machines of whatsoever type, and to whom sold and the price received therefor, which records shall be open at reasonable times to the inspection of the Licensor or his accredited agent, and the Licensee agrees to render to the

Licensor, at such times as he may request, full information regarding the business; of building and selling Cottoners of whichsoever type, including inquiries from customers or prospective customers, negotiations with respect to the
16 sale of machines, information regarding costs and expenses relative to such manufacture and sale, and all other information of a like character which will enable the Licensor to keep closely in touch with all details respecting the business to which this contract is directed.

8. The Licensee further agrees that within ten days of the receipt of the purchase price or part thereof on account of the sale of any machine, or parts, of whichsoever type covered by the provisions of this agreement, it will report the same to the Licensor and make payment therefor of the amount due, whether on account of royalties, commissions, or under the provisions of paragraph 4, and the Licensee further agrees that within fifteen days of the termination of any half yearly period, it will account for and pay any balance due under the guaranteed minimum of Six Hundred Dollars ($600.00).

9. It is further agreed between the parties hereto that the minimum price per machine of either type shall be Two Thousand Five Hundred Dollars ($2,500.00) and that the maximum price on standard machines shall be Five Thousand Dollars ($5,000.00) unless the machines embody special features of construction, and that such price range shall be maintained unless changes therein are mutually agreed to in writing.

17 10. It is further agreed that in the event the Licensee shall fail to build and sell machines and pay the royalties and commissions or other payments herein provided for when and as due, the Licensor may serve written notice thereof of such default upon the Licensee, calling attention to such default, and if the omission be not rectified by the Licensee within sixty days of such

notice, then by serving further notice in writing, the Licensor may at his option terminate the present agreement, and all rights thereunder, without, however, waiver of any claim of royalties, and other payments theretofore due, and damages sustained, and all patents, drawings, and data regarding developments of machines of the Kelly type shall thereupon be turned over to the Licensor without cost or expense, unless the matter shall have theretofor become the subject of arbitration in the manner hereinafter provided for. The Licensee agrees that it will apply to each machine manufactured of whatsoever type a proper name plate giving the name and the appropriate patent numbers.

11. In the event of infringement of any patent or patents coming within the provisions of this agreement, or in the event suit be brought by outsiders charging infringement in the manufacture and sale of any Cottoner coming within the provisions of this agreement, the parties
18 hereto agree to cooperate together in the prosecution or defense of said suit or suits on a basis to be mutually agreed upon with the provision, however, that if either party declines to participate in the expense of such prosecution or defense, the other party may proceed on its own behalf, in which event, however, the non-participating party shall not be entitled to the benefit of any recovery or settlement resulting from such litigation.

12. It is further provided that in the event the Licensee shall fail to secure and maintain an exclusive license under the Lakso patents aforesaid, the royalty of 7½% to be paid to Kelly as herein provided for shall be increased to 15%, and that Licensee shall be obligated to confine its manufacture of Cottoner machines exclusively to machines of the Kelly type unless the Licensor shall otherwise agree to the modification of the provisions of this paragraph.

13. Any controversy or claim arising out of or relating

to the subject matter of this contract, or any breach thereof, shall be settled by arbitration in accordance with the rules obtaining in the American Arbitration Association and judgment on the award rendered may be entered in the highest court of the forum, state or federal having jurisdiction, and the Licensee agrees that the above provisions of this paragraph shall be made a part of any license agreement entered into with Enio Lakso, the patentee of patents No. 2,269,722 and No. 2,304,932 aforesaid.

19 14. It is further agreed that the Licensor, in cooperation with established sales representatives of the Licensee in the respective territories of the United States and Canada, may when possible offer any required assistance toward negotiating, developing, or consummating sales of Cottoner machines and that the Licensee shall cooperate in all reasonable ways in such undertaking without, however, impairing the full rights of such sales representatives either with respect to commissions for sales within their allotted territory or any other prerogatives granted them by Licensee under their sales contract, and without obligation on the part of the Licensee to compensate the Licensor for the efforts so expended save in conformity with the provisions of this agreement.

It is provided that the Licensor shall be allotted a period of thirty days from June 1, 1944 in which to conclude five pending deals on Cottoners on the basis of the pre-existing sales prices and royalty rate of 15% on the gross selling price of such machines. The Licensee agrees to extend Licensor's present exclusive sale arrangement on the complete Consolidated line in the present territory for a period of three years from the date of this agreement. The present license shall continue throughout the term of the last expiring patent issued under which the present license is granted or which may hereafter be brought under the terms and provisions hereof.

15. Wherever, in accordance with this agreement, any notice is given, or required to be given, or any remittance to be made, the same shall be sent by registered mail if from the Licensee to the Licensor, at his last known address, viz., Thomas C. Kelly, 226 North Lincoln Street, Hinsdale, Illinois; and if from the Licensor to the Licensee, at its last known address, viz., Consolidated Packaging Machinery Corporation, 1400 West Avenue, Buffalo, New York; and the depositing of any such notice or remittance in the mails, in an envelope properly stamped and addressed and registered shall be deemed a sufficient and complete prima facie service of such notice or remittance as the case may be.

16. The license herein and hereby granted is personal to the Licensee and shall be assignable by Licensee only to the successor of its entire business, and shall terminate ipso facto if and when—

(a) The Licensee shall be adjudicated a bankrupt or a receiver be appointed of its assets and business, but this shall not include any proceedings or decree involved in any reorganization under Chapter X of the Bankruptcy Act or any receivership under which the fulfillment by Licensee of its obligations under this license is not substantially impaired or unduly delayed; or

(b) Licensee shall make an assignment for benefit of creditors not including, however, assignments of particular accounts in the usual course of its business.

This contract shall inure to the benefit of the heirs, assigns, and legal representatives of the Licensor and to the successors of the entire business of the Licensee.

In Witness Whereof, the parties hereto have executed this agreement, the Licensor at Chicago, Illinois, this 3rd

day of June, 1944, and Licensee by its duly authorized officials at Buffalo, New York, this 7th day of June, 1944.

Thomas C. Kelly,
Licensor.

Witness:
Nathan Schoenbrod.

Consolidated Packaging Machinery Corporation,
by E. G. Kuhn,
V. P.

Attest:
R. B. Herth.

22 State of Illinois, } ss.
County of Cook. }

On the 3rd day of June, 1944 personally appeared before me, Thomas C. Kelly, the party named in the foregoing agreement and acknowledged that the same had been duly executed by him as his free and voluntary act for the purposes therein set forth.

Jennie Pines,
Notary Public.

State of New York, } ss.
County of Erie. }

On the 7th day of June, 1944 personally appeared before me, E. G. Kuhn, the party named as Vice-Pres. of Consolidated Packaging Machinery Corporation, and acknowledged that the foregoing instrument had been duly executed by him as his free and voluntary corporate act for the purposes therein set forth.

Lillian C. Bullard,
Notary Public.

23 Plaintiff's Exhibit No. 2

(Letterhead of Consolidated Packaging Machinery Corporation, Buffalo 13, N. Y.)

December 14, 1953.

Mr. Thomas C. Kelly,
226 North Lincoln Street,
Hinsdale, Illinois.

Dear Tom:

We are very glad to have your friendly letter and reciprocate your Holiday Greetings.

I think perhaps I can best answer your suggestion, that possibly we have overlooked something that you would be entitled to, by sending you a copy of letter I have had occasion to write after repeated suggestions that there was a sound legal basis for questioning the validity of our contract. I think you will note from this reply our attitude toward you, and you will see that we have tried very hard to defend to the utmost a continuation of this so long as you are alive.

In view of the fact that the very nature of the Kottoner as we have redesigned it seldom results in further change-overs, many of the areas where ordinarily new fittings are required on such machines as cappers serve an almost universal need except on a very limited scale. We are always conscious of the fact that you are depending heavily upon us and for this reason you can relax, knowing that we are doing our very best to look after you.

Yours very truly,

RH E. G. Kuhn.

24 Plaintiff's Exhibit No. 3.

November 30, 1953.

Mr. Thomas E. Tate,
International Paper Company,
220 East 42nd Street,
New York 17, N. Y.

Dear Tom: Re: Kottoners .

I am glad to learn from your letter of November 24 that such improvements as we have continued to make in the various models of our Consolidated Kottoner have suggested substantial progress in this direction.

Our sales are naturally expanding in response to our forward looking program, and as you say progress in this direction is naturally reflected in the royalty payments by which we seek to share our good fortune with those upon whom we have been dependent in the past. Your observations and comment with respect to the situation are altogether valid when based upon those areas in which your main interest naturally lies. In other important respects, however, we would hesitate to disturb the existing arrangement so long as our position on the Kottoners is noncompetitive and the economic advantages to the purchaser justify a price which amply absorbs the cost of our existing royalty arrangement. We prefer to recognize the services of those whose combined ingenuity is basically responsible for our unchallenged position in this highly specialized phase of packaging.

The relationship which our association with Lakso has provided and the cooperation rendered represent a value far in excess of any payments our present arrangement with him can provide. His contacts in a broad segment of the pharmaceutical field, which is of major interest to Con-

solidated, are deeply rooted and his sponsorship in many directions amounts to almost the final word.

With respect to Tom Kelly who has been associated with this company and its predecessors for over thirty years, we could hardly extend any consideration to anything that would deprive him of the modest return his contribution to the art of automatic bottle wadding has well earned. Now in his 81st year, he retains a very important following thruout those industries in the midwest where he is still highly regarded.

I think you will agree, Tom, that these are circumstances which well justify the important relationships whose value you are hardly in position to appraise. Therefore and with sincere appreciation of your excellent review of the company's position patentwise and the strictly legal status of our agreement with the foregoing licensors, I am convinced you will conclude that our present course offers maximum protection to our company's interests.

With many thanks and warm regards, I am

Yours very truly,

RH E. G. Kuhn,

President.

CC: A. A. Scholl

26 Plaintiff's Exhibit No. 4.

(Letterhead of Consolidated Packaging Machinery Corporation, Buffalo 13, N. Y.)

June 14, 1955.

Mr. J. Edgar Kelly,
Deming, Kelly & Kane,
111 West Washington Street,
Chicago 2, Illinois.

Dear Mr. Kelly:

We have your official notification that hereafter such royalties as accrue under the existing license arrangement with Mr. Thomas C. Kelly will become payable to you as executors of Tom's estate.

In order that you may have complete information in hand for clarification purposes we are attaching hereto advice received from our patent attorney whom you will note happens to be identified with our parent company, the International Paper Company.

It can be assumed but perhaps your authorization should be extended to include the dividend checks payable against stock still standing in Mr. Kelly's name.

Assuring you of our own very deep regard for Mr. Kelly and our sincere regret at his passing, we are

Yours very truly,
Consolidated Packaging Machinery Corp.
(Signed) E. G. Kuhn,
E. G. Kuhn,
President.

RH

27 Plaintiff's Exhibit No. 5.

(Letterhead of International Paper Company,
New York 17, N. Y.)

June 10, 1955.

Mr. E. G. Kuhn,
Consolidated Packaging Machinery Corp.,
1400 West Avenue,
Buffalo 13, N. Y.

Re Kottoner Contract

Dear Ed:

In answer to your letter of June 7, I missed the obit relating to Tom Kelly, but Miss Deeves saw it in one of the local papers and mentioned it to me.

With respect to your contract with him, and now his heirs, assigns, etc., its life only extends to the date of expiration of the Kelly patent 2,172,572 which will expire on September 5, 1956, and from that time on you will have no further obligations of any sort with respect to the Kelly estate.

After September 5, 1956 your license with Lakso will, of course, continue until the expiration date of his patent 2,304,932 which will expire on December 15, 1959.

The thought occurs to me that you might like to review the study of this matter I made in my letter to you of November 24, 1953. I felt then and still feel that your royalty obligation with respect to Kelly does not extend beyond the guaranteed minimum of $600 for each half year period during the life of the agreement unless you produce and sell Kottoners of the Kelly type. Your agreement with Kelly provides that if you do not pay the $600 each six months he would have the right to cancel after first giving sixty days' written notice. You may now wish to discontinue payments of the $600 half yearly minimum fees as well as the 7½% royalties to see what reaction you would get

from Kelly's estate. If they should cancel this agreement before its normal date of expiration in 1956 you would still be liable for royalties on any machines which had been made up to date of the cancellation and in connection with which you had not already paid royalties, and conceivably you might also be liable for whatever of the $600 half-yearly payments you had not made.

Yours very truly,

Tom.

TET:md
cc Mr. A. A. Scholl.

28 IN THE DISTRICT COURT OF THE UNITED STATES.
* * (Caption—56-C-357) * *

AMENDMENT TO COMPLAINT.

(Filed March 14, 1956. Roy H. Johnson, Clerk.)

Now comes the plaintiff under Federal Rule of Civil procedure 15 and amends his Complaint heretofore filed on February 21, 1956 by changing the name "Consolidated Paper Company" in paragraph 4 to "Consolidated Packaging Machinery Corporation", and by adding the following paragraphs 19 to 36 and second prayer as

Count II.

For Recovery of Treble Damages for Violation of Federal Anti-Trust Laws.

19. This action arises under 15 U. S. C., Sections 15 and 2, as hereinafter more fully appears.

29 20. Plaintiff is the Executor of the Estate of Thomas C. Kelly, who died testate in Du Page County, Illinois, on the 2d day of June, 1955. Said estate is being probated in said court, File No. 16934. Letters Testamen-

tary were issued on the 9th day of June, 1955 to the plaintiff. Thomas C. Kelly, deceased, is hereinafter referred to as "Kelly".

21. The defendant, International Paper Company, hereinafter referred to as "International", which term shall include its predecessors-in-title, is a corporation organized under the laws of the State of New York, and has offices at 400 West Madison Street, Chicago, Illinois.

22. Plaintiff is a citizen of the State of Illinois, and the defendant is a citizen of the State of New York. The matter in controversy exceeds, exclusive of interest and costs, the sum of three thousand dollars.

23. The Consolidated Packaging Machinery Corporation, hereinafter called "Consolidated", is a corporation organized under the laws of the State of New York, and has offices at 1400 West Avenue, Buffalo 13, New York.

24. On December 12, 1939, Kelly exclusively licensed Consolidated to manufacture a cottoner machine under his patent, No. 2-171,572, dated September 5, 1939. The broadest claim of this patent is limited to a cottoner in which a tube is positioned above an upwardly open bottle and cotton is fed down the tube.

25. By 1940, the defendant International, which had long been a stockholder in Consolidated, had acquired slightly more than half of the outstanding stock in Consolidated, namely, 52%.

26. In that year, 1940, the defendant International, directly or through Consolidated, discovered that a man named Eino Lakso, of Fitchburg, Massachusetts, had designed and was building a manually operated cottoner machine; that the cotton was put in the bottle in a manner and by a means which did not infringe the aforesaid licensed Kelly patent; and that Lakso had patent applications of his own pending. In that year, the defendant either compelled or conspired with Consolidated to represent to said

Kelly that the Lakso machine would tuck cotton under the shoulders of bottles whereas Kelly's machine would not, and could not be altered to do this, and that in order to offer the trade a complete line, the 1939 agreement should be changed to permit Consolidated to obtain an exclusive license or otherwise acquire the Lakso patents.

31 27. This, Kelly refused to do in writing, offering instead to cancel the contract with Consolidated outright. This, Consolidated refused to do.

28. During the three years preceding January 1, 1944, the defendant compelled Consolidated not to use its best efforts to promote the sale of Kelly cottoners, in violation of Paragraph 4 of the 1939 agreement, so that on January 1, 1944, 30 cottoners would not have been sold, thereby giving Kelly the right to cancel the contract, the only way in which Consolidated could get out of the contract, the defendant recognizing that having acquired the entire means of building the Kelly machine in the Consolidated plant, and having the right to take a license from Lakso, it would be able for all practical purposes to eliminate Kelly from the field.

29. In 1944, Kelly was 68 years of age, and semi-retired. There was no possibility of re-doing what he had started eight years before, namely, designing the machine, building the model machine here in Chicago, selling it to Abbott Laboratories, and interesting a manufacturer to an extent that they sold several machines and got the business started. The 1944 contract, PX-1, was executed as the best that he could do under the circumstances,— circumstances created by the defendant International.

32 30. The true purpose of the defendant in seeking to obtain replacement of the 1939 contract was to permit the defendant through Consolidated to acquire exclusive rights under the Lakso patents so as to create a monopoly in cottoners throughout the United States. The plaintiff,

therefore, charges that contrary to 15 U. S. C. Section 2, the defendant attempted to monopolize, and combined and conspired with Consolidated to monopolize, the cottoner machine business, and upon information and belief, the sale of cotton wadding for use in such machines, in the United States of America, and further charges that since 1944, the defendant International with its subsidiary Consolidated did perfect and has continuously had for more than ten years a 100% monopoly in the cottoner machine business.

31. In carrying out its plan to monopolize the cottoner machine business in the United States, the defendant rejected Kelly's improvement on his machine which would make it possible to compete with the Lakso patents. This improvement was offered to Consolidated after United States Letters Patent No. 2,412,089, dated December 3, 1946, had issued, as required by the 1944 agreement, but Consolidated refused to bring this patent under the agreement because the Kelly patent under which it had an exclusive license had claims that dominated this machine.

33 32. Consolidated, in the normal course of improving the Kelly machine, filed on behalf of its employee Gantzer three patent applications which matured into patents as follows:

Filing Date	Patent No.	Patent Date	Inventor
April 9, 1947	2,596,813	May 13, 1952	Gantzer
July 3, 1948	2,501,770	March 28, 1950	"
Jan. 23, 1951	2,691,473	Oct. 12, 1954	"

Pursuant to its monopoly, the defendant caused Consolidated to conceal the existence of these three patents from Kelly, contrary to the provisions of paragraph 6 of the 1944 agreement, and the existence of these patents was not discovered until after Kelly's death.

33. In December 1955, counsel for the Estate of Kelly, discovered the existence of the three patents listed above.

The latest of these three patents expires October 12, 1971, and this extends the 1944 contract, PX-1, to that date. Plaintiff demanded conveyance of the patents by Consolidated. Kuhn of Consolidated replied that he was obliged to refer the matter to the defendant, International. Tate of International then wrote plaintiff's attorney that John V. Groner, of the law firm of Fish, Richardson & Neave of New York City, would reply for Consolidated. Upon information and belief, Fish, Richardson & Neave are retained as counsel by International and are not retained by Consolidated.

34 34. Pursuant to maintaining its monopoly, on February 20, 1956, Groner communicated through the law firm of Wilkinson, Huxley, Byron & Hume, 38 South Dearborn Street, Chicago 3, Illinois, by serving a copy of the complaint in Civil Action 56 C 344, Consolidated Packaging Machinery Corporation *vs.* Richard J. Kelly, Executor of the Estate of Thomas C. Kelly, Deceased.

35. The plaintiff has been legally damaged under 15 U. S. C. Section 15 by the above-recited conduct of the defendant and specifically:

(a) The plaintiff will lose some $8,000 in royalties from January 1, 1956 to September 5, 1956.

(b) The plaintiff will lose $36,000 in additional royalties for the three and one-half year period from September 5, 1956 through December 15, 1959, the expiration date of the last Lakso patent.

(c) The plaintiff will lose some $186,000 in additional royalties for the period from December 15, 1959 to October 12, 1971, the expiration date of the last Gantzer patent.

35 36. The defendant pursuant to its monopoly has converted the 1944 contract to its own use and plaintiff has suffered actual damage in the amount of $230,000.

Wherefore, plaintiff demands:

(a) That the defendant International be ordered to dismiss Cause of Action No. 56 C 344, *Consolidated Packaging Machinery Corporation* v. *Richard G. Kelly, Executor of the Estate of Thomas C. Kelly, Deceased,* now pending in this court; to have Consolidated reinstate the contract and pay the plaintiff in accordance with the 1944 agreement through October 12, 1971; to have Consolidated confirm this arrangement by a contract in writing; and then withdraw by selling its Consolidated stock at the price for which it paid for the stock; or

(b) That judgment against the defendant International be entered in favor of the plaintiff in the sum of $750,000, being damages of $250,000 trebled in accordance with 15 U. S. C. Section 15, together with interest, a reasonable attorneys' fee, and all costs.

Richard J. Kelly, Executor of the Estate
of Thomas C. Kelly,
By J. Edgar Kelly,
111 West Washington Street,
Chicago 2, Illinois,
CE. 6-4378.

Wilfred S. Stone,
134 South LaSalle Street,
Chicago 3, Illinois,
RA. 6-4180.

36 State of Illinois, } ss:
County of Cook. }

Affidavit of Mailing.

Wilfred S. Stone, being duly sworn, deposes and says that inasmuch as on Wednesday morning, March 14, 1956, no appearance for the defendant showed on the Clerk's docket of the United States District Court, Northern District of Illinois, Eastern Division, and not having received any notice of such an appearance, a copy of the foregoing Amendment to Complaint was mailed by registered mail to the defendant International Paper Company at its Chicago office, 400 West Madison Street, Chicago 6, Illinois, and to its Illinois representative, Prentice-Hall Inc., 222 West Adams Street, Chicago 6, Illinois, this 14th day of March, 1956.

Wilfred S. Stone

Subscribed and sworn to before me this 14th day of March, 1956.

Kathryn C. Spielmann,
(Seal) *Notary Public.*

37 In the United States District Court.
* * (Caption—56-C-357) * *

MOTION FOR SUMMARY JUDGMENT.

(Filed March 14, 1956. Roy H. Johnson, Clerk.)

The defendant, International Paper Company, by James P. Hume, its attorney, hereby moves the Court to enter summary judgment for the defendant in accordance with the provisions of Rule 56(b) and (c) of the Rules of Civil Procedure, on the ground that the Complaint and the ex-

hibit attached to said Complaint, marked Exhibit PX-1, together with the affidavit of Thomas E. Tate hereto attached, marked Exhibit DX-A, show that there is no genuine issue as to any material fact and that the defendant is entitled to judgment as a matter of law.

38 In support of this motion, a Memorandum is filed.

James P. Hume,
38 S. Dearborn Street,
Chicago 3, Illinois,
Attorney for Defendant.

Of Counsel:
John Vaughan Groner,
20 Exchange Place,
New York 5, N. Y.

James D. Bock,
20 Exchange Place,
New York 5, N. Y.

March 14, 1956

Receipt of copies of the foregoing Motion for Summary Judgment, the affidavit of Thomas E. Tate, and Memorandum in Support of Motion, acknowledged this ..... day of March, 1956.

J. Edgar Kelly (A. J.)
111 W. Washington St.,
Chicago 2, Illinois,
Attorney for Plaintiff.

39 IN THE UNITED STATES DISTRICT COURT.
* * (Caption—56-C-357) * *

Affidavit.

State of New York,
County of New York. } ss.:

Thomas E. Tate, being first duly sworn, deposes and says:

I am the Thomas E. Tate referred to in the Complaint herein and am a registered Patent Agent, employed by International Paper Company, and am a member of the Board of Directors of Consolidated Packaging Machinery Corporation (hereinafter called "Consolidated" and which is the company intended to be referred to in paragraph 4 of the Complaint), and have personal knowledge of the facts herein set forth.

This affidavit is submitted in support of defendant's Motion for Summary Judgment herein for the purpose of showing that the defendant is entitled to judgment as a matter of law.

The defendant, International Paper Company, is at present the owner of over 58% of the voting stock of Consolidated and has owned either directly or through a wholly owned subsidiary a majority of the voting stock of Consolidated, since 1931, and I now own one share of
40 the voting stock of said Consolidated. I was elected to the Board of Directors of Consolidated on February 20, 1946, and have served continuously in that capacity to and including the present date.

International Paper Company has in its employ a number of lawyers who operate as members of the Legal Department of said company. I am not a member of said Legal Department.

It has been the custom for many years and, specifically

to my knowledge, since at least 1940 to the present date, for International Paper Company to make available to Consolidated the services of its Legal Department and of its Patent Agents or Patent Attorneys, and for Consolidated to avail itself of such services to the extent that it desires.

Such of the acts alleged to have been performed by me in paragraphs 11, 12 and 14 of the Complaint as were performed by me, were performed either in my capacity as a Director of Consolidated or as Patent Agent for said corporation.

Thomas E. Tate

Sworn to before me this 12th day of March, 1956.

Willard Leininger,

(Seal) *Notary Public.*

Willard Leininger
Notary Public, State of New York
No. 41-7484100
Qualified in Queens County
Cert. Filed in New York County
Term Expires March 30, 1956

41 In the District Court of the United States.

* * (Caption—56-C-357) * *

MOTION TO DISMISS OR FOR SUMMARY JUDGMENT.

(Filed April 5, 1956. Roy H. Johnson, Clerk.)

The defendant, International Paper Company, by James P. Hume, its attorney, hereby moves the Court as to each of Counts I and II of the Complaint, as amended:

1. To dismiss the action in accordance with the provisions of Rule 12(b) of the Rules of Civil Procedure, on the ground that the Complaint, as amended, fails to state

a claim against defendant upon which relief can be granted, or, alternatively,

2. To enter summary judgment for the defendant in accordance with the provisions of Rule 56(a) and (c), on the ground that the Complaint, as amended, the agree-
42 ment of June 3, 1944 between plaintiff and Thomas C. Kelly, Deceased, marked "Plaintiff's Exhibit PX-1", and the affidavit of Thomas E. Tate, dated March 12, 1956, marked "Defendant's Exhibit DX-A", show that there is no genuine issue as to any material fact, and that the defendant is entitled to judgment as a matter of law.

A memorandum in support of this motion will be filed on June 30, 1956, in accordance with a stipulated schedule for briefs filed of even date herewith.

Respectfully submitted,

James P. Hume,
38 So. Dearborn St.,
Chicago 3, Illinois,
Attorney for Defendant.

April 5, 1956.

Receipt of copies of the foregoing Motion to Dismiss or for Summary Judgment is acknowledged this 5th day of April, 1956.

J. Edgar Kelly, by A. J.,
111 W. Washington St.,
Chicago 2, Illinois,
Attorney for Plaintiff.

43 IN THE UNITED STATES DISTRICT COURT.
* * (Caption—56-C-357) * *

STIPULATION.

(Filed April 18, 1956. Roy H. Johnson, Clerk.)

It Is Hereby Stipulated by and between the parties hereto, through their respective counsel, this Honorable Court consenting, that the Motion to Dismiss or for Summary Judgment, filed on April 5, 1956, be amended by substituting "Consolidated Packaging Machinery Corporation" for the word "plaintiff" in line 1 of page 2 thereof.

This amendment is required to correct an error appearing in said Motion through inadvertence and mistake.

J. Edgar Kelly,
111 West Washington St.,
Chicago 2, Illinois,
Attorney for Plaintiff.

April 18, 1956.

James P. Hume,
38 S. Dearborn Street,
Chicago 3, Illinois,
Attorney for Defendant.

April ....., 1956.

So Ordered:

Win G. Knoch,
District Judge.

April 18, 1956.

44 IN THE UNITED STATES DISTRICT COURT.
* * (Caption—56-C-357) * *

AFFIDAVIT.

(Filed July 30, 1956. Roy H. Johnson, Clerk.)

Edward G. Kuhn, being first duly sworn, deposes and says:

1. I am President of Consolidated Packaging Machinery Corporation (Consolidated), and have been employed in that position continuously since June 30, 1944. For many years prior to that date I was Vice-President of Consolidated.

2. In June, 1944, Consolidated entered into a patent license agreement, Plaintiff's Exhibit PX-1, with Thomas C. Kelly (Kelly), licensor, under Kelly Patent 2,171,572. The said agreement relates to machines for inserting cotton wadding into bottles or other containers and provides, in paragraphs 4 and 5, for the payment by Consolidated
45 to Kelly of a royalty of 7½% on "Kelly type" machines and a commission of 7½% on "Cottoners of a type known as Lakso Cottoners and covered by United States Letters Patent No. 2,269,722 and No. 2,304,932."

3. Consolidated has paid to Kelly or his representatives, on each and every machine for inserting cotton wadding into bottles or other containers, irrespective of whether such machine was of the "Kelly type," of the "Lakso type" or of another type, manufactured and sold by Consolidated, and for which payment was received by Consolidated in the period from June 3, 1944 to February 20, 1956, a royalty or commission at the rate of 7½% of its gross selling price. In addition, Consolidated has paid to Kelly or his representatives $250.00 per machine on each of the first ten said machines sold during said period,

and additional payments to bring the aggregate of said royalties and commissions up to a minimum of not less than $600.00 for certain six-month periods.

4. On June 13, 1944, Consolidated entered into an agreement with Eino E. Lakso (Lakso), owner of the Lakso United States patents Nos. 2,269,722 and 2,304,932, for Method and Apparatus for Inserting Packing in Containers, and Apparatus for Inserting Packing in Containers, respectively, by which agreement Lakso granted to Consolidated an exclusive, royalty-bearing, non-transferable license under the said patents. A true an correct copy
46 of this agreement is attached hereto as Defendant's Exhibit DX-B. There is no relationship between Keily and Lakso, and the Lakso type machines manufactured by Consolidated under the Lakso patents are materially different from the Kelly type machines manufactured by Consolidated under the Kelly patent.

5. In February and March 1956, this Lakso agreement was amended to provide that the said license to Consolidated would thereafter be non-exclusive, and that the requirement for the payment of royalties by Consolidated to Lakso would thereafter be discontinued. This amendment was by exchange of letters between Consolidated and Lakso, true and correct copies of which are attached hereto and designated as follows:

Letter, Consolidated to Lakso, dated January 25, 1956, marked Defendant's Exhibit DX-C;

Letter, Lakso to Consolidated, dated February 24, 1956, executed also on behalf of Consolidated by E. G. Kuhn, President, marked Defendant's Exhibit DX-D;

Letter, Consolidated to Lakso, dated March 1, 1956, marked Defendant's Exhibit DX-E.

47 6. Consolidated is now, and for many years has been, engaged in the manufacture and sale in inter-

state commerce of machinery for packaging and other purposes, including machines for inserting cotton wadding into bottles, and regularly carries out a program of research and development directed toward the production of new or improved types of such machines. In carrying out this program, Consolidated's engineers from time to time make inventions which they assign to Consolidated, and on which Consolidated files patent applications. H. E. Gantzer, one of Consolidated's engineers, has made certain inventions in material inserting machinery, useful for inserting cotton wadding into bottles or other containers, on which the following patents have issued to Consolidated as assignee of the said Gantzer:

Patent 2,501,770—Material Inserting Machinery based on an application filed July 3, 1948.

Patent 2,596,813—Material Inserting Machine, based on an application filed April 9, 1947.

Patent 2,691,473—Material Inserting Machinery, based on application filed January 23, 1951.

In addition, there are now pending in the United States Patent Office the following patent applications, assigned to Consolidated, covering inventions made by Consoli-
48 dated's engineers on material inserting machines:

Serial No. 474,455, filed December 10, 1954, a copy of which is attached and marked Defendant's Exhibit DX-F;

Serial No. 483,377, filed January 21, 1955, a copy of which is attached and marked Defendant's Exhibit DX-G.

Copies of said patent applications were mailed to Deming, Kelly and Kane by affiant on June 4, 1956 as enclosures with a letter dated June 4, 1956, a copy of which is attached and marked Defendant's Exhibit DX-H. Said letter of June 4, 1956 was in reply to a letter dated May 23, 1956

from Deming, Kelly and Kane to Consolidated, a copy of which is attached and marked Defendant's Exhibit DX-I.

Edward G. Kuhn.

Subscribed and sworn to before me, this 23rd day of July, 1956.

Allen H. Daggett,
Notary Public.

Allen H. Daggett
Notary Public State of New York
Qualified in Erie County

My Commission expires Mar. 30, 1958.

49 Defendant's Exhibit B.

Agreement.

Whereas, Eino E. Lakso, of Fitchburg, County of Worcester, State of Massachusetts, has invented certain new and useful improvements in Method And Apparatus For Inserting Packing In Containers and Apparatus For Inserting Packing In Containers, on which he has applied for and received United States Letters Patent Nos. 2,539,722, and 2,304,932, and of which he owns the entire right, title and interest;

And Whereas, Consolidated Packaging Machinery Corporation, of Buffalo, New York, a corporation duly created and existing under the laws of the State of New York, located and doing business at Buffalo, County of Erie, State of New York, is desirous of manufacturing and using the inventions under an exclusive non-transferable license under said patents:

Now, Therefore, In Consideration of the sum of One Thousand Dollars by the said Consolidated Packaging

Machinery Corporation to the said Lakso to be paid, and other good and valuable considerations, the parties hereto have agreed and hereby do agree together as follows:

1. Said Lakso hereby grants to the said Consolidated Packaging Machinery Corporation an exclusive non-transferable license under the said patents to make, use, and sell apparatuses embodying the inventions.

2. Said Lakso agrees to make available to said Consolidated Packaging Machinery Corporation all drawings, patterns, and correspondence held by said Lakso relating to the inventions.

3. Said Lakso agrees to prosecute any pending applications for patents relating to the inventions and to make the same and any future developments or inventions on this subject matter available to said Consolidated Packaging Machinery Corporation for the same consideration.

50 4. Said Lakso agrees to render engineering and design aid and assistance to said Consolidated Packaging Machinery Corporation at a mutually agreeable rate of compensation, said Consolidated Packaging Machinery Corporation to pay all expense incurred by said Lakso in so doing; said aid and assistance being conditional on the convenience of said Lakso.

5. Said Lakso agrees to make known to said Consolidated Packaging Machinery Corporation all parties, known to said Lakso, who are interested in purchase of equipment relating to the inventions.

6. Said Consolidated Packaging Machinery Corporation agrees to pay to said Lakso $1,000.00 (One Thousand Dollars) upon signing of this agreement.

7. Said Consolidated Packaging Machinery Corporation agrees to further pay said Lakso 7½% (seven and one-half per cent) of the gross selling price of all apparatus or machines for inserting packing in containers made by or for

said Consolidated Packaging Machinery Corporation and sold, regardless of the type of apparatus or machine and whether or not such apparatus or machines conform to said patents; payment under this paragraph are to be made to said Lakso within 10 days after receipt of the selling price by said Consolidated Packaging Machinery Corporation.

8. Said Consolidated Packaging Machinery Corporation agrees to pay said Lakso not less than $600.00 (Six Hundred Dollars) during all six months periods of the life of this agreement: said Consolidated Packaging Machinery Corporation agrees that said Lakso shall have the right to make, use, and/or sell equipment for inserting packing in containers in the event that said Consolidated Packaging Machinery Corporation fails to pay to said Lakso said
51 $600.00 during any preceding six month period. It is expressly understood, however, that this provision will not become effective until such time as priority regulations, materials allotment plan and other government regulations restricting the sale and manufacture of equipment are eliminated and normal operating conditions are again in effect.

9. Said Consolidated Packaging Machinery Corporation agrees to use all reasonable diligence in promoting, manufacturing, and selling equipment for inserting packing in containers under the conditions of this agreement.

10. Said Consolidated Packaging Machinery Corporation agrees to acquaint said Lakso of the name and location of the purchaser of each machine and also the type of machine sold.

11. It is mutually agreed that this agreement shall remain in full force and effect until expiration of the last expiring patent included in the agreement or any improvement patent or patents added, and that this agreement shall be binding on and enure to the benefit of the parties hereto, their heirs, assigns and legal representatives.

Signed at Buffalo, County of Erie, State of New York, this 13th day of June, 1944.

Consolidated Packaging Machinery Corporation
By E. G. Kuhn, L.S.
V. President.

Witness:
R. B. Herth.

Signed at Fitchburg, County of Worcester, State of Massachusetts, this Fourth day of November, 1943.

By Eino E. Lakso, L.S.
E. E. Lakso.

Witness:
A. C. Tuibka.

52 Defendant's Exhibit C.

(Letterhead of Consolidated Packaging Machinery Corp., Buffalo 13, N. Y.)

January 25, 1956.

Mr. E. E. Lakso,
The Lakso Company,
P. O. Box 257,
Fitchburg, Mass.

Dear Eino:

It seems rather clear that you are having some difficulty in reaching an acceptable conclusion with respect to our position in the matter involving our present license and the existing violation of its provisions which you have been frank enough to disclose.

As I think of it, Eino, perhaps the best way out of it is to convert our present contract to one which conveys non-exclusive rights and relieves us of any further royalty payments. Under such a program you of course would be en-

tirely free to manufacture machines under your existing patents and without violating in any way the patents which we ourselves happen to hold with respect to design, method, etc. This perhaps would relieve the tension which I know has been difficult to avoid in the matter and will open up the future in some degree for young Gene which you have explained is your principal objective.

This in effect countenances your infraction with respect to the existing arrangement and appears to justify our cancellation of further royalty payments, and at the same time leaves you completely free to carry on any developments you may choose providing we can be absolutely certain of no involvement with Kelly as a result. Let me have your views on this just as quickly as you can as in all essential respects aside from the Kelly angle we have all the necessary facts before us.

Yours very truly,
Consolidated Packaging Machinery Corp.,
E. G. Kuhn,
President.

RH
CC: Tom Tate.

53 Defendant's Exhibit D.

(Letterhead of The Lakso Company, Inc.,
Fitchburg, Massachusetts)

February 24, 1956.

Mr. E. G. Kuhn,
Consolidated Packaging Machinery Corp.,
1400 West Ave.,
Buffalo 13, New York.

Dear Ed:

Since phoning you on February 6th during which we discussed the provisions expressed in your letter of January 25th I have not heard from you. My notes about the phone conversation indicate that you were going to confirm by

letter our agreement to the discontinuation of royalties in exchange for a non-exclusive license all according to your January 25 letter.

This letter is my acceptance to the offer in your letter to me of January 25, 1956. I do not think any other papers are necessary to make this a matter of record for the short time remaining in the life of our agreement dated November 4, 1943 and June 13, 1944.

I am doing this even though there has been no violation of the spirit and intent of our agreement, solely to remove any possibility of any controversy among ourselves hurting our sales or yours.

The past 12 years has been a pleasant association and we hope the continued promotion of our respective products will be mutually beneficial.

If this is all agreeable to you please sign one copy and return it to us for our files.

Sincerely yours,
E. E. Lakso,
R. H. Zeidler,
Witness.

E. G. Kuhn, *Pres.*,
Consolidated Packaging Machinery Corp.

R. B. Herth,
Witness.

54 Defendant's Exhibit E.

(Letterhead of Consolidated Packaging Machinery Corp., Buffalo 13, N. Y.)

March 1, 1956.

Mr. E. E. Lakso,
The Lakso Company,
P. O. Box 257,
Fitchburg, Mass.

Dear Eino:

I am convinced that our interests as well as your own are well secured by the simple form of agreement which you have submitted. I think this conforms completely with our original intention of avoiding any unnecessary legal complications and under such circumstances are happy to relieve others for any responsibility in connection with the matter.

Tom Tate has been particularly busy during recent weeks and we are eager to avoid imposing upon him any further with respect to this particular arrangement, now and herewith approved. There can be little question as to the honesty of our intentions and to me this always transcends mere words.

With warm regards, I am

Sincerely yours,
Consolidated Packaging Machinery Corp.
E. G. Kuhn,
President.

RH
CC: T. E. Tate.
Encl. Signed copy of 2/24/56 letter.

119 Defendant's Exhibit H.

Consolidated Packaging Machinery Corp.
1400 West Avenue,
Buffalo 13, N. Y.

June 4, 1956

Mr. J. Edgar Kelly
Deming, Kelly & Kane
111 West Washington Street
Chicago 2, Illinois

Dear Mr. Kelly:

I have your letter of May 23 in which you request that we "immediately disclose to (you) the patent applications described in the last sentence of paragraph 6 of the affidavit of Mr. Edward G. Kuhn dated April 23, 1956 * * *"

The agreement of June 3, 1944 between Thomas C. Kelly and Consolidated Packaging Machinery Corporation provides in paragraph 6 that, if Consolidated "shall develop and invent any improvements of a patentable order on the Kelly type machine, the same shall be promptly disclosed to the Licensor * * *"

Consolidated has heretofore prosecuted to issue three patents, viz., Nos. 2,501,770; 2,596,813 and 2,691,473, and at the present time has two pending applications, viz. applications Serial Nos. 474,455 filed December 10, 1954 and 483,377 filed January 21, 1955. These applications are the patent applications described in the last sentence of paragraph 6 of the affidavit of Mr. Edward G. Kuhn dated April 23, 1956. Since neither the issued patents nor the pending applications related to "improvements of a patentable order on the Kelly type machine" but instead relate to a Cottoner of radically different type, there is no obligation to Consolidated to disclose to you anything contained therein.

Notwithstanding this fact, Consolidated desires, in this as in its other relations with you, to maintain an attitude of complete frankness. Therefore, I enclose for your information but *not* in compliance with any provisions of the contract, copies of the named applications. It is my understanding that you have already received copies of the issued patents.

Yours very truly,
Consolidated Packaging Machinery Corp.
E. G. Kuhn,
President.

CC. J. D. Bock
T. E. Tate
RH

120 Defendant's Exhibit I.

Deming, Kelly & Kane
Attorneys at Law
111 West Washington Street
Chicago 2

May 23, 1956

Consolidated Packaging
Machinery Corporation
1400 West Avenue
Buffalo 13, New York
Attention of Mr. E. G. Kuhn.

Gentlemen:

As attorneys for Richard J. Kelly, Executor of the Estate of Thomas C. Kelly, deceased, we hereby request that you immediately disclose to us the patent applications described in the last sentence of paragraph 6 of the affidavit of Mr. Edward G. Kuhn dated April 23, 1956, which affidavit is

attached to the brief filed on May 1, 1956 in the case of Consolidated etc. *vs.* Kelly, case number 56 C 344.

This request is made in order that we may determine whether these inventions are improvements on the Kelly-type machine, as provided in paragraph 6 of the agreement of June 3, 1944.

Very truly yours,
Deming, Kelly & Kane
By J. Edgar Kelly

JEK:aj

Copy to:

Mr. James P. Hume
38 South Dearborn St.
Chicago 3, Illinois

Mr. John V. Groner
20 Exchange Place
New York 5, N. Y.

147 IN THE UNITED STATES DISTRICT COURT.
* * (Caption—56-C-357) * *

AFFIDAVIT.

State of Illinois, }
County of Cook. } ss.

J. Edgar Kelly, being first duly sworn, on oath deposes and says that he is one of the attorneys for the plaintiff herein.

That he found the attached letter in the business files of Thomas C. Kelly, the same being a carbon copy of a letter which this affiant believes was written by Thomas C. Kelly and mailed to Mr. E. G. Kuhn, of Consolidated Packaging Machinery Corporation, on or about the date it bears, December 13, 1946.

J. Edgar Kelly.

Subscribed and Sworn to before me this 15th day of October, A. D. 1956.

Eva Rauschenberger,
Notary Public.

(Seal)

148 Plaintiff's Exhibit 6.

December 13, 1946

Mr. E. G. Kuhn
Consolidated Packaging Machinery Corp.
1400 West Avenue
Buffalo 13, New York

Dear Mr. Kuhn:

I have given a good deal of thought to your letter of December 9 and the preceding correspondence; and, as a result, wish to make this proposal:

If our 1944 Agreement is unenforceable—and you say it is unenforceable—that is sufficient reason to get rid of it, and I think we should do so promptly by mutual consent.

In order to provide for filling the contracts or orders now on the books, we could have an informal agreement providing for the royalties, etc. that would be enforceable.

All of this would mean that you would release my patent back to me for such use as I could make of it; and, since you apparently are bent on exploiting a Kottoner of different form and arrangement, that would apparently fit in with your plans also.

If this proposal is acceptable to you, please advise, and we can probably work out the details before I have to go away.

I very much appreciate your kind Christmas Greetings and reciprocate in generous measure.

Yours very truly,
Thomas C. Kelly

TCK/cmg

149 IN THE UNITED STATES DISTRICT COURT.
* * (Caption—56-C-357) * *

AFFIDAVIT.

(Filed Nov. 5, 1956. Roy H. Johnson, Clerk.)

Edward G. Kuhn, being first duly sworn, deposes and says:

1. On July 23, 1956, I made an affidavit which has been filed herein, and this affidavit supplements said earlier affidavit.

2. Attached to "Plaintiff's Memorandum in Opposition to Defendant's Motion to Dismiss or for Summary Judgment", filed herein on October 15, 1956, is the affidavit of J. Edgar Kelly, to which is attached copy of a letter dated December 13, 1946, from Thomas C. Kelly to me. Said letter, standing alone, creates an entirely erroneous impression as to the facts. Accordingly, and in order to make
150 the situation to which said letter relates understandable, I attach hereto the following correspondence, marked herein respectively as Defendant's Exhibits DX-J through DX-Q, inclusive:

Copy of my letter of December 26, 1946, to Thomas C. Kelly, to which is attached copy of letter of December 23, 1946, from Thomas E. Tate to me (Defendant's Exhibit DX-J).

Copy of letter of April 17, 1947, from Thomas C. Kelly to me (Defendant's Exhibit DX-K).

Copy of a second letter of April 17, 1947, from Thomas C. Kelly to me (Defendant's Exhibit DX-L).

Copy of my letter of April 21, 1947, to Thomas C. Kelly (Defendant's Exhibit DX-M).

Copy of letter of April 24, 1947, from Thomas C. Kelly to Thomas A. Tate (Defendant's Exhibit DX-N).

Copy of letter dated April 25, 1947, from Thomas E. Tate to me (Defendant's Exhibit DX-O).

Copy of letter of April 25, 1947, from Thomas E. Tate to Thomas C. Kelly (Defendant's Exhibit DX-P).
Copy of letter of April 28, 1947, from me to Thomas C. Kelly (Defendant's Exhibit DX-Q).

According to my records, the above correspondence is all of the correspondence relating to the subject matter of Mr. Kelly's letter to me of December 13, 1946.

Edward G. Kuhn

Subscribed and sworn to before me this 1st day of November, 1956.

Irene I. Roesch (Smith),
(Seal) *Notary Public.*

My commission expires March 30, 1958.

151 Defendant's Exhibit DX-J.

December 26, 1946

Mr. Thomas C. Kelly
135 South LaSalle Street,
Chicago 3, Illinois.

Dear Tom:

You will remember my telling you that we had sent your last letter down to New York for study by Mr. Tate. I have just received his reply and am sending you a copy for your review, and one that perhaps you might like to hand to Mr. Banning.

If Mr. Tate has interpreted your letter correctly we shall be very glad to take such steps as will permit you the unrestricted privilege of manufacturing cottoning equipment under the group of patents which have been issued to you from time to time. Let me know just as soon as you have reached a decision.

Yours very truly,
RH E. G. Kuhn
CC: T E Tate

152 December 23, 1946

Mr. E. G. Kuhn,
Consolidated Packaging Machinery Corp.,
1400 West Avenue,
Buffalo 13, N. Y.

Dear Ed:

Since you showed me Mr. Kelly's letter of December 13 I have given the contents of the same a good deal of thought.

Mr. Kelly apparently is making two major points in his letter, the first of which is that the agreement between him and Consolidated should be terminated by mutual consent, and the second is that he should be paid the royalties due on any Kottoners which are now on firm order with Consolidated.

In connection with the termination of the agreement between Consolidated and Kelly, it is my belief that such termination might well work to the advantage of both parties.

I agree with Mr. Kelly that if the agreement should become terminated it would be only fair to him to provide for his normal payment of royalties on only those machines for which orders are already on Consolidated's books for filling. In this connection, if it should occur that the royalties due to Mr. Kelly in respect to such machines already on order do not equal the minimum payment due him for the period in which the orders are in process, I believe it would be necessary to make up the difference between the amount of the royalties paid and such minimum. Of course, if the royalties due in the order filling period are in excess of the minimum for the same period, then of course there is no question of making up any difference between royalties and minimum.

Mr. Kelly also indicates that as a condition of terminat-

ing the agreement it would become necessary for Consolidated to reassign his Kottoner patent back to him. I agree with this in principle.

153 In so far as the mechanics of terminating the agreement are concerned, a simple, short form agreement can be prepared which will make reference to the basic agreement between Consolidated and Kelly, as well as the one of June 3, 1944 under which you are currently operating, and such short agreement should state that the two agreements referred to therein shall become terminated by mutual consent, accord or what have you, as of such and such a date. There should also be a listing by Consolidated of whatever Kottoners are firmly on order, and the terminating agreement should specifically provide for the payment of royalties due with respect to such Kottoners. The terminating agreement should also provide for an agreement on the part of Consolidated to reassign Kelly's patent to him.

On the part of Kelly the terminating agreement should include a general release to Consolidated in connection with every phase of the agreements which are being terminated, provided, however, (1) that Consolidated shall be under the obligation to pay royalties on machines now firmly on order or make up the difference between such royalties and the minimum for the period covered by such orders in process, and (2) that Consolidated shall be obligated to reassign the Kelly patent to him.

I believe that the foregoing points are the major ones which should be given careful consideration in connection with any potential termination of Consolidated's agreement with Mr. Kelly. If there are any other questions which occur to you in connection with this, please do not hesitate to call on me and I will do my best to oblige.

Yours very truly,

TET:md /s/ Tom

154 Defendant's Exhibit DX-K.

Thomas C. Kelly
Packaging Consultant
125 South LaSalle Street
Chicago 3.

April 17, 1947

Consolidated Packaging Machinery Corporation,
1400 West Avenue,
Buffalo 13, New York.
Attention: Mr. E. G. Kuhn, President

Dear Ed:

Pursuant to paragraph No. 7 of our contract of June 3, 1944, I hereby make demand upon you for a statement disclosing the following information:

1. The number of Kottoners, or cotton wadding machines you now have on order;
2. The names of the purchasers, and the selling price of each of these machines;
3. The dates on which you expect to make delivery.
4. The names of customers, or prospective customers, from whom you have received inquiries pertaining to these machines.

Thanking you for promptly furnishing the above information, I am

Yours very truly,
/s/ Thomas C. Kelly.

JEK-MT

155 **Defendant's Exhibit DX-L.**

Thomas C. Kelly
Packaging Consultant
125 South La Salle Street
Chicago 3

April 17, 1947.

Consolidated Packaging Machinery Corporation,
1400 West Avenue,
Buffalo 13, New York.

Attention: Mr. E. G. Kuhn, President.

Dear Ed:

Inasmuch as I was unable to attend the annual meeting of the stockholders of Consolidated Packaging Machinery Corporation, I did not receive the annual financial statement.

I am considering offers for the sale of my stock, and would appreciate receiving this statement promptly. If you do not have available copies on hand, I will be glad to return to you in two or three days the copy which you forward to me.

Very truly yours,
/s/ Thomas C. Kelly.

JEK-MT

156 Defendant's Exhibit DX-M.

April 21, 1947.

Mr. Thomas C. Kelly,
135 South LaSalle Street,
Chicago 3, Illinois.

Dear Tom:

I have your two letters of the 17th and are very glad to enclose herewith the statement. If we could be quite sure that we could maintain our present level of earnings, you could be encouraged to hold out for a pretty fair figure for the stock you hold. As it is, I suppose it still remains a matter of just what somebody will offer for it.

In connection with the other letter regarding the Kottoners, we are listing on the attached sheet the number of orders we now have on our books and the approximate prices at which they have been sold, as far as the dates we expect to make delivery are concerned, this is something we can not tell even our best customers, but we are indicating what would appear to us to be at least an honest guess.

The list of prospective customers is something we, of course, can not take the time to produce. Scattered throughout the files are inquiries for Kottoners along with all the various types of equipment we build, and as you know under current conditions we are making no aggressive followups in any direction because we have far more commitments than we can comfortably handle for a long time to come, and there is little purpose in encouraging a demand which can not be filled until far into the future.

Yours very truly,
E. G. Kuhn.

RH
CC: T Tate

157 **Defendant's Exhibit DX-N.**

Thomas C. Kelly
Packaging Consultant
125 South La Salle Street
Chicago 3

April 24, 1947.

Mr. Thomas A. Tate,
International Paper Co.,
220 E. 42nd Street,
New York City, N. Y.

Dear Mr. Tate:

Since my pleasant call upon you in your office on April 11, I have given further consideration to the idea we briefly discussed at that time, namely; that it might be mutually desirable to get together in an effort to iron out and settle our differences affecting my contract with Consolidated.

I would like to invite Mr. Kuhn and you to come to Chicago any day soon, at your convenience. During the years, I have made a number of trips to Buffalo, at my own expense, in this connection. I, therefore, feel that it might be entirely equitable to ask you to come out West this time.

I await your reply with interest and meantime, remain with kindest regards.

Yours very truly,
Thomas C. Kelly,
/s/ T. C. Kelly.

TCK:t

158 Defendant's Exhibit DX-O.

April 25, 1947.

Mr. E. G. Kuhn,
Consolidated Packaging Machinery Corp.,
1400 West Avenue,
Buffalo 13, N. Y.

Dear Ed:

I am enclosing a copy of a letter which I have just received from Mr. Kelly.

For your information, our "discussion" consisted of my sitting back and listening to Mr. Kelly talk, and the only mention that was made of any possibility of a conference was my affirmative answer to a question of his as to whether or not I could be available for a discussion among the three of us if it became necessary.

I can't imagine why Kelly has written to me in connection with this matter rather than directly to you, and accordingly, I would appreciate it if you would reply to his letter. I will drop him a note acknowledging receipt of same and tell him that I have referred the note to you.

Personally, I see no reason why a trip to Chicago should be necessary or why Kelly should go to Buffalo unless something concrete were proposed at this time along the lines covered in his letter of December 13, 1946 in which he proposed the mutual termination of the contract.

Yours very truly,

/s/ Tom.

TET:MD
Enc.

159 Defendant's Exhibit DX-P.

April 25, 1947.

Mr. Thomas C. Kelly,
138 South La Salle Street,
Chicago 3, Ill.

Dear Mr. Kelly:

Thank you for your letter of April 24.

I have referred your letter to Mr. Kuhn in view of the fact that any arrangements for a conference would have to be determined upon between you and him.

As I advised you during your brief visit to my office, I am able to place my time at the disposal of Consolidated at Consolidated's request.

Yours very truly,
/s/ Thomas E. Tate.

TET:MD
cc E. G. Kuhn

160 Defendant's Exhibit DX-Q.

April 28, 1947.

Mr. Thomas C. Kelly,
135 South LaSalle Street,
Chicago 3, Illinois.

Dear Tom:

I have before me a letter just received from Mr. Tate, enclosing copy of your letter to him and suggesting that any replies to same should come from this office.

Under these circumstances I might say quite frankly that I know of nothing to discuss or any difference which may have arisen in connection with our present contract with

you. I expect no opportunity to come to Chicago for some little time nor do I feel warranted in asking Mr. Tate to do so until we have had a full opportunity to examine those question which you now have mentioned.

I am rather surprised that, when you did have the opportunity of discussing these matters with Mr. Tate, you did not take advantage of it.

Insofar as we are concerned, we are prepared to go along on the exact same basis as we have in the past but when the time arrives that you feel you would like to take over the Kelly patents intact, we shall be glad to relinquish them as we have no future intentions of putting them to use inasmuch as we have found improved methods of accomplishing the same purpose.

Yours very truly,

Consolidated Packaging Machinery Corp.,

E. G. Kuhn,

General Manager.

EGK'S

161 IN THE UNITED STATES DISTRICT COURT.

* * (Caption—56-C-357) * *

MEMORANDUM AND ORDER.

This matter came on to be heard on defendant's motion for summary judgment in its favor. The Court has had the benefit of argument of counsel on briefs, has studied the pleadings and the authorities to which counsel refer, and is fully advised in the premises.

It appears to the Court that there is no genuine issue as to any material fact and that defendant is entitled to judgment as a matter of law.

Apart from defendant's assertion of privilege as a stockholder, it is the conclusion of the Court that no action lies

for inducing breach of plaintiff's contract here because the contract itself is unenforceable.

The identical contract was the subject of action for declaratory judgment as to its invalidity in Consolidated Packaging Machinery Corporation *vs.* Richard J. Kelly, Executor of the Estate of Thomas C. Kelly, Deceased, Case No. 56 C 344, wherein this Court found for the plaintiff.

The Court found that under this identical contract Consolidated Packaging Machinery Corporation (herein alleged to have been induced by International Paper Company to breach the contract) was required to secure and maintain an exclusive license under patents wholly unrelated to that of this plaintiff's decedent Kelly, on loss of which license, Consolidated was to confine its manufacture exclusively to machines of the Kelly type and to pay him higher royalties; the contract prescribed prices not only for machines of the Kelly type, but also for the machines made pursuant to the unrelated patents and provided (in effect) for royalties to be paid the decedent on both types.

The Court also found that the objectionable portions of the contract, unenforceable under the antitrust laws, were an integrated part of the contract and not severable.

162 It is ordered, adjudged and decreed that summary judgment be entered in favor of defendant, with costs.

Win G. Knoch,
United States District Judge.

Date: Apr. 29, 1957.

163 IN THE UNITED STATES DISTRICT COURT
For the Northern District of Illinois,
Eastern Division.

Richard J. Kelly, Executor of the Estate of Thomas C. Kelly, Deceased,
Plaintiff,
vs.
International Paper Company,
Defendant.
No. 56-C-357.

NOTICE OF APPEAL.

(Filed May 22, 1957. Roy H. Johnson, Clerk.)

Notice Is Hereby Given that Richard J. Kelly, executor of the estate of Thomas C. Kelly, deceased, plaintiff above named, hereby appeals to the United States Court of Appeals for the Seventh Circuit from the order granting summary judgment in favor of the defendant entered in this action on April 29, 1957.

The names of the plaintiff and his attorneys of record are:

Richard J. Kelly, Executor of the Estate of Thomas C. Kelly, deceased,

and

164 J. Edgar Kelly,
111 W. Washington Street, Chicago 2, Illinois, and
Wilfred S. Stone,
134 S. La Salle Street, Chicago 3, Illinois,
his attorneys.

The name of the defendant and its attorney of record are:

International Paper Company

and

James P. Hume,
38 S. Dearborn Street, Chicago 3, Illinois,
its attorney.

J. Edgar Kelly,
111 W. Washington Street,
Chicago 2, Illinois,

Wilfred S. Stone,
134 S. La Salle Street,
Chicago 3, Illinois,
Attorneys for Appellant.

165 United States of America,
Northern District of Illinois. } ss.

* * (Caption—56-C-357) * *

CERTIFICATE OF MAILING.

I, Roy H. Johnson, Clerk of the United States District Court for the Northern District of Illinois, do hereby certify that on the 22nd day of May, 1957, in accordance with Rule 73(b) of the Federal Rules of Civil Procedure, a copy of the foregoing Notice of Appeal was mailed to

James P. Hume
38 South Dearborn Street
Chicago 3, Illinois.

In Testimony Whereof, I have hereunto subscribed my name and affixed the seal of the aforesaid Court at Chicago, Illinois, this 22nd day of May, 1957.

Roy H. Johnson,
Clerk.

(Seal)

By Gizella Butcher,
Deputy Clerk.

168 United States of America,
Northern District of Illinois. } ss.

I, Roy H. Johnson, Clerk of the United States District Court for the Northern District of Illinois, do hereby certify that the annexed and foregoing are the original papers constituting the record on appeal in the cause entitled: Richard J. Kelly, Executor of the Estate of Thomas C. Kelly, Plaintiff *vs.* International Paper Company, Defendant, No. 56 C 357, as follows:

Complaint for compelling breach of contract filed February 21, 1956.

Amendment to Complaint filed March 14, 1956.

Defendant's Motion for Summary Judgment filed March 14, 1956.

Defendant's Motion to dismiss or for summary judgment filed April 5, 1956.

Stipulation and order of April 18, 1956, amending by substitution Motion to Dismiss for Summary Judgment filed April 5, 1956.

Affidavit of Edward G. Kuhn filed July 30, 1956.

Plaintiff's Memorandum in opposition to defendant's motion to dismiss or for summary judgment with affidavit attached filed October 15, 1956.

Affidavit of Edward G. Kuhn filed November 5, 1956.

Memorandum and Order entered April 29, 1957.

169 Plaintiff's Notice of Appeal filed May 22, 1957.

Clerk's Certificate of mailing attached thereto.

Stipulation of counsel with respect to designation of record filed June 18, 1957.

filed and entered among the records of the said Court in my office, on the dates indicated.

In Testimony Whereof, I have hereunto subscribed my name and affixed the seal of the aforesaid Court at Chicago, Illinois, this 20th day of June, 1957.

Roy H. Johnson,
Clerk.

(Seal)

By Gizella Butcher,
Deputy Clerk.

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FILED
MAY 12 1958
JOHN T. FEY, Clerk

IN THE

Supreme Court of the United States

OCTOBER TERM, 1957.

No. 992

CONSOLIDATED PACKAGING MACHINERY CORPORATION,

Respondent,

vs.

RICHARD J. KELLY, EXECUTOR, ETC.,

Petitioner.

RICHARD J. KELLY, EXECUTOR, ETC.,

Petitioner,

vs.

INTERNATIONAL PAPER COMPANY,

Respondent.

PETITION FOR A WRIT OF CERTIORARI TO THE COURT OF APPEALS FOR THE SEVENTH CIRCUIT.

J. EDGAR KELLY,
111 W. Washington Street,
Chicago 2, Illinois,
Counsel for Petitioner.

WILFRED S. STONE,
134 S. La Salle Street,
Chicago 3, Illinois,
Of Counsel.

IN THE

Supreme Court of the United States

OCTOBER TERM, 1957.

No. .....

CONSOLIDATED PACKAGING MACHINERY CORPORATION,

Respondent,

vs.

RICHARD J. KELLY, EXECUTOR, ETC.,

Petitioner.

RICHARD J. KELLY, EXECUTOR, ETC.,

Petitioner,

vs.

INTERNATIONAL PAPER COMPANY,

Respondent.

PETITION FOR CERTIORARI.

To the Honorable Justices of the Supreme Court of the United States:

Richard J. Kelly, executor of the estate of Thomas C. Kelly, deceased, respectfully prays that a writ of certiorari issue to review the judgment of the Court of Appeals for the Seventh Circuit entered in the above entitled causes.

OPINION BELOW.

The opinion of the Court of Appeals for the Seventh Circuit is not reported as yet in the Federal Reporter, but does appear at 116 U. S. P. Q. 276, and is appended to this petition.

JURISDICTION.

The decision of the Court of Appeals for the Seventh Circuit is dated February 7, 1958, and petition for rehearing was denied April 8, 1958. Jurisdiction to review these cases is based upon Section 1254 (1) of the Judicial Code, as revised by the Act of June 25, 1948 (28 U. S. C. § 1254(1)).

QUESTION PRESENTED.

Does a clause in an exclusive patent license fixing the price on the licensed machine and a competitive machine manufactured by the licensee under another exclusive patent license render the license illegal under the Sherman Act (15 U. S. C. § 1), when both licensors share equally in the royalties from both machines and neither licensor manufactures?

STATUTE INVOLVED.

The section of the Sherman Act involved (15 U. S. C. § 1) reads, as follows:

> "Every contract, combination in the form of trust or otherwise, or conspiracy, in restraint of trade or commerce among the several States, or with foreign nations, is hereby declared to be illegal: *Provided*, That nothing contained in sections 1-7 of this title shall render illegal, contracts or agreements prescribing minimum prices for the resale of a commodity which bears, or the label or container of which bears, the trade mark, brand, or name of the producer or distributor of such commodity and which is in free and

open competition with commodities of the same general class produced or distributed by others, when contracts or agreements of that description are lawful as applied to intrastate transactions, under any statute, law, or public policy now or hereafter in effect in any State, Territory, or the District of Columbia in which such resale is to be made, or to which the commodity is to be transported for such resale, and the making of such contracts or agreements shall not be an unfair method of competition under section 45, as amended and supplemented, of this title: *Provided further*, That the preceding proviso shall not make lawful any contract or agreement, providing for the establishment or maintenance of minimum resale prices on any commodity herein involved, between manufacturers, or between producers, or between wholesalers, or between brokers, or between factors, or between retailers, or between persons, firms, or corporations in competition with each other. Every person who shall make any contract or engage in any combination or conspiracy declared by sections 1-7 of this title to be illegal shall be deemed guilty of a misdemeanor, and, on conviction thereof, shall be punished by fine not exceeding fifty thousand dollars, or by imprisonment not exceeding one year, or by both said punishments, in the discretion of the court. As amended July 7, 1955, c. 281, 69 Stat. 282."

STATEMENT OF THE CASE.

The facts material to the consideration of the question presented are these: Thomas C. Kelly, now deceased, was a sales representative for Consolidated Packaging Machinery Corporation, a manufacturer and seller of packaging machinery. Kelly designed, and on September 5, 1939 obtained United States Letters Patent number 2,172,572 on, a machine described as a "cottoner" (Cottoner or Kottoner), which inserted a wad of cotton into the neck of a bottle or jar.

On December 12, 1939, Kelly granted Consolidated an exclusive license under this patent. This license forebade Consolidated to manufacture any competing machine (App. 12070, p. 7, par. 4). From 1939 to June 7, 1944, Consolidated paid royalties of fifteen percent of the gross selling price to Kelly (App. 12070, p. 12, par. 14).

On November 4, 1943, Consolidated obtained the signature of one Eino E. Lakso to an exclusive patent license to manufacture and sell another type of cottoner (App. 12070, p. 21). Lakso was to receive a royalty of seven and a half percent of the gross selling price of all cottoners manufactured by Consolidated under the Lakso or any other patent (App. 12070, p. 20, par. 7). Consolidated could not sign this agreement in November of 1943 because of the restriction contained in its license with Kelly, which prohibited it from manufacturing another cottoner.

On June 3, 1944, Kelly granted a new, exclusive patent license to Consolidated, which superseded the agreement of December 12, 1939, and which permitted Consolidated to manufacture other cottoners. This license contained the following clauses:

> "6. It is further agreed that if the Licensee through members of its organization shall develop and invent any improvements of a patentable order on the Kelly type machine, the same shall be promptly disclosed to the Licensor and if patentable, a patent application or applications shall be made to protect the same, and such application shall be forthwith assigned to the Licensor and incorporated within the provisions of this agreement.
>
> "9. It is further agreed between the parties hereto that the minimum price per machine of either type shall be Two Thousand Five Hundred Dollars ($2,500.00) and that the maximum price on standard machines shall be Five Thousaad Dollars ($5,000.00) unless the machines embody special features of construction, and that such price range shall be maintained

unless changes therein are mutually agreed to in writing.

"12. It is further provided that in the event the Licensee shall fail to secure and maintain an exclusive license under the Lakso patents aforesaid, the royalty of 7½% to be paid to Kelly as herein provided for shall be increased to 15%, and that Licensee shall be obligated to confine its manufacture of Cottoner machines exclusively to machines of the Kelly type unless the Licensor shall otherwise agree to the modification of the provisions of this paragraph."

Consolidated signed this new license in Buffalo, New York, on June 7, 1944 (App. 12070, p. 13), and, thereafter, on June 13, 1944 signed the Lakso license (App. 12070, p. 21).

International Paper Company owned more than fifty percent of the stock of Consolidated, and, on February 20, 1946, placed its patent agent, Thomas E. Tate, on Consolidated's board of directors (App. 12071, p. 29).

On December 9, 1946, Consolidated advised Kelly that the license of June 7, 1944 was illegal and unenforceable. Kelly, on December 13, 1946, replied by letter, which stated in part:

"If our 1944 Agreement is unenforceable—and you say it is unenforceable—that is sufficient reason to get rid of it, and I think we should do so promptly by mutual consent."

(App. 12071, p. 47.)

This offer to cancel was submitted by Consolidated to Tate, of International, who recommended cancellation (App. 12071, p. 50). On April 17, 1947, Kelly demanded from Consolidated a list of the customers or prospective customers from whom Consolidated had received inquiries pertaining to his machine (App. 12071, p. 52). This demand was refused by Consolidated on April 21, 1947 (App.

12071, p. 54), and on April 28, 1947, Consolidated wrote to Kelly at the direction of Tate, of International, saying:

> "Insofar as we are concerned, we are prepared to go along on the exact same basis as we have in the past but when the time arrives that you feel you would like to take over the Kelly patents intact, we shall be glad to relinquish them as we have no future intentions of putting them to use inasmuch as we have further improved methods of accomplishing the same purpose. Consolidated then continued to pay royalties to Kelly until February 20, 1956."

Between the years 1947 and 1951, Consolidated, by an employee, filed three improvement patents which were concealed from Kelly (App. 12071, p. 43). These patents were discovered by the petitioner in December of 1955 after Kelly's death, and he, thereupon, made demand on Consolidated for the conveyance of these patents in accordance with paragraph 6 of the license of June 7, 1944. Consolidated replied to that demand, on February 20, 1956, by filing suit against petitioner, as the executor of the estate of Thomas C. Kelly, to declare the patent license of June 7, 1944 illegal, unenforceable, and in violation of the anti-trust laws. This complaint was filed under the Declaratory Judgment Act, 28 U. S. C. § 2201 and 2202.

Petitioner moved for summary judgment under Rule 56 of the Federal Rules of Civil Procedure, there being no genuine issue as to any material fact. Consolidated filed a countermotion for summary judgment; and the District Court denied petitioner's motion and granted Consolidated's motion. On appeal, this case became appeal number 12070.

On February 21, 1956, petitioner filed suit against International for damages for illegally compelling Consolidated to breach its license of June 7, 1944 with Thomas C.

Kelly and for damages for illegally creating a monopoly, in violation of the antitrust laws (15 U. S. C. § 2 and 15).

International filed a motion for summary judgment, and the District Court granted that motion for the reason that it had determined the license of June 7, 1944 to be illegal in the case filed by Consolidated. On appeal, this case became appeal number 12071.

From those judgments petitioner appealed, and the Court of Appeals for the Seventh Circuit affirmed the District Court in a single opinion on the ground that Kelly's license illegally fixed the price on Lakso's machines.

Respondents, Consolidated Packaging Machinery Corporation and International Paper Company, are corporations organized under the laws of the State of New York, and petitioner is a resident of the State of Illinois. These suits were, therefore, filed in the Federal Court because of diversity of citizenship (28 U. S. C. § 1332).

REASONS FOR GRANTING THE WRIT.

The Court of Appeals for the Seventh Circuit has decided an important question of federal law which has not been, but should be, settled by this court. By its decision, the Court of Appeals for the Seventh Circuit has extended Section 1 of the Sherman Act (15 U. S. C. § 1) to make illegal an exclusive patent license between a licensor and his licensee when these parties are not in competition with each other. The effect is to render illegal any exclusive patent license granted by a non-manufacturing licensor to a manufacturing licensee, in which the licensor seeks to protect his royalties by providing that the licensee must sell competing products at the same price as the licensed product.

Section 1 of the Sherman Act (15 U. S. C. § 1) was

cited by the Court of Appeals as the law which rendered the license agreement herein questioned illegal. This law invalidates only a contract in restraint of trade or commerce. "Restraint of trade", as used in this act, means the restraining of competition; and in the present case, there was no restraint because Kelly had deprived himself of the right to manufacture in competition with his licensee. Lakso had, also, surrendered his right to manufacture his machine. Consolidated, therefore, controlled all rights under the patents owned by Kelly and Lakso. It was only in competition with other machinery manufacturers, and this competition was in no way affected by either the Kelly or Lakso licenses.

The word "price" is not in the original Sherman Act, but was added by provisos in the law of August 17, 1937. These provisos made it illegal for persons, firms, or corporations in competition with each other to agree to fix resale prices.

The license in question here did not fix resale prices, nor was it a contract between parties in competition with each other. The prices fixed in the license of June 7, 1944 were not designed to restrain competition but, rather, to protect the licensor. Kelly, as well as Lakso, was assured that royalties would be paid to them upon a fair and reasonable price. The Court of Appeals for the Seventh Circuit said that Kelly had the right to do this as to the machine covered by his patent, but not as to the Lakso machine.

So long as it was legal for Kelly to receive royalties on the Lakso machine, and for Lakso to receive royalties on the Kelly machine, the licensee did not violate Section 1 of the Sherman Act by agreeing to a maximum and minimum price. Such a clause in exclusive licenses does not restrain trade or competition within Section 1 of the Sherman Act.

CONCLUSION.

For the reasons stated, it is respectfully submitted that this petition should be granted.

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APPENDIX.

IN THE UNITED STATES COURT OF APPEALS
For the Seventh Circuit.

September Term and Session, 1957.

No. 12070
CONSOLIDATED PACKAGING MACHINERY CORPORATION,
Plaintiff-Appellee,
v.
RICHARD J KELLY, Executor, etc.,
Defendant-Appellant.

No. 12071
RICHARD J. KELLY, Executor, etc.,
Plaintiff-Appellant,
v.
INTERNATIONAL PAPER COMPANY,
Defendant-Appellee.

Appeal from the United States District Court fo. the Northern District of Illinois, Eastern Division.

February 7, 1958.

Before FINNEGAN, SCHNACKENBERG and HASTINGS, *Circuit Judges.*

FINNEGAN, *Circuit Judge.* For many years Thomas C. Kelly, now deceased, was a sales representative of plaintiff, Consolidated Packaging Machinery Corporation, a manufacturer and seller of packaging machinery Kelly designed, and on September 5, 1939 obtained United States Letters Patent No. 2,171,572 on a machine described as a cottoner (Cottoner or Kottoner) which inserted a wad of cotton into the neck of a bottle or jar. Subsequently plaintiff became the exclusive licensee of Kelly, as licensor,

under an agreement dated December 12, 1939. For the right to manufacture and sell machines under Kelly's patent, plaintiff agreed, inter alia, that it would not manufacture and sell any other cottoners and would pay Kelly royalties on the gross selling price of such machines. During the period 1939 to 1944 plaintiff manufactured, sold cottoners and paid Kelly royalties.

On June 13, 1944, the plaintiff Consolidated, entered into an agreement with Eino E. Lakso, owner of Lakso U. S. patents Nos. 2,269,722 and 2,304,932 for methods and apparatus for inserting packing in containers. Under this contract Lakso granted Consolidated an exclusive, royalty-bearing, non-transferable license, for those two patents.

This lawsuit pivots on several clauses, reprinted below, contained in a superseding contract by and between Consolidated and Kelly who signed it on June 3, 1944.

> "9. It is further agreed between the parties hereto that the minimum price per machine of either type shall be Two Thousand Five Hundred Dollars ($2,500.00) and that the maximum price on standard machines shall be Five Thousand ($5,000.00) unless the machines embody special features of construction, and that such price range shall be maintained unless changes therein are mutually agreed to in writing."
>
> "12. It is further provided that in the event the Licensee shall fail to secure and maintain an exclusive license under the Lakso patents aforesaid, the royalty of 7½% to be paid to Kelly as herein provided for shall be increased to 15%, and that Licensee shall be obligated to confine its manufacture of Cottoner machines exclusively to machines of the Kelly type unless the Licensor shall otherwise agree to the modification of the provisions of this paragraph."

In 1946 plaintiff advised Kelly that the June 3, 1944 agreement was illegal and plaintiff ignored Kelly's offer of cancellation. Consolidated performed under that con-

tract from June 3, 1944 to February 20, 1956 when plaintiff filed its complaint for a declaratory judgment in the district court. Thomas C. Kelly died in June, 1955 and Richard J. Kelly, the executor of his estate, is the defendant in this appeal.

By its deceptively simple appearing complaint Consolidated asked the district judge to declare the license agreement of June 3, 1944 (Consolidated-Kelly) invalid, unenforceable and rescinded.

Each side filed a motion for summary judgment and submitted supporting affidavits. The relevant agreements, and some correspondence were all before the district judge when he entered the following final judgment from which defendant appealed.

> "1. The agreement of June 3, 1944, because of its price-fixing provision and because of its provision limiting the right of Consolidated to manufacture and sell machines competitive with the Kelly machine, is invalid and unenforceable.
>
> 2. Consolidated has no duty or obligation of any nature under said agreement of June 3, 1944.
>
> 3. The illegal portions of said agreement of June 3, 1944, are integrated with all other portions and are not severable therefrom.
>
> 4. Said agreement of June 3, 1944, is of no force and effect and is herewith terminated."

There are two prongs in the argument plaintiff sponsors in support of the judgment striking down the Consolidated-Kelly agreement of June 3, 1944. The first, and perhaps slightly more significant runs in this vein. Obviously Kelly is an utter stranger to all interests in the Lakso patents yet under clause 9, *supra*, the 1944 agreement, Kelly and Consolidated provided for a maximum and minimum price at which plaintiff may sell cottoners manufactured under the Kelly license and also those produced under Lakso patents. Plaintiff, then, is conceding

it has violated the "anti-trust laws" by joining with Kelly in fixing prices on Lakso products which were unpatented by Kelly, though he could legally set prices for products flowing from his patent, but no others. This contention assumes price fixing is embedded in clause 9 and that the Kelly-Lakso pricing is inseparable and permeating the total contract.

The statement of claim filed below is over-simplified, even under Rule 8, Federal Rules of Civil Procedure, 28 U. S. C., and instead of invoking Rule 12, defendant simply moved for summary judgment. Later plaintiff also made such a motion under Rule 56, Federal Rules of Civil Procedure. Of course allegations in plaintiff's complaint are admitted when not denied. Rule 8, *supra*. Neither a trial nor oral arguments were had below. Only an issue of law was presented for decision by the trial judge and the result reached by him was correct. We think the challenged license agreement an integrated price-fixing arrangement between the parties and in violation of the Sherman Act, 15 U. S. C. § 1. *United States* v. *Line Material Co.*, 333 U. S. 287 (1948).

No. 12071

Kelly's executor sued International Paper Company for allegedly inducing breach of the identical contract invalidated by the district judge, and discussed here. Granting International's motion for summary judgment in this companion case was correct. The critical contract was unenforceable. *Bailey* v. *Banister*, 200 F. 2d 683, 685 (10th Cir. 1952).

Nothing else in the briefs filed for Kelly's executor, as plaintiff-appellant, demands mention in this opinion for we found appellant's points are without merit.

Judgments in appeals numbered 12070 and 12071 are each respectively affirmed.

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IN THE

Supreme Court of the United States

October Term, 1957.

No. 992

CONSOLIDATED PACKAGING MACHINERY CORPORATION,

Respondent,

vs.

RICHARD J. KELLY, Executor, Etc.,

Petitioner.

RICHARD J. KELLY, Executor, Etc.,

Petitioner,

vs.

INTERNATIONAL PAPER COMPANY,

Respondent.

BRIEF IN OPPOSITION FOR RESPONDENTS, CONSOLIDATED AND INTERNATIONAL

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May 27, 1958.

IN THE

Supreme Court of the United States

OCTOBER TERM, 1957

No. 992

CONSOLIDATED PACKAGING MACHINERY CORPORATION,
Respondent.

vs.

RICHARD J. KELLY, Executor, Etc.,
Petitioner.

RICHARD J. KELLY, Executor, Etc.,
Petitioner.

vs.

INTERNATIONAL PAPER COMPANY,
Respondent.

BRIEF IN OPPOSITION FOR RESPONDENTS, CONSOLIDATED and INTERNATIONAL

The Opinion Below

The opinion of the Court of Appeals for the Seventh Circuit has now been reported in 253 F. 2d 49.

Statement of Case

Respondent, Consolidated, by an agreement dated June 3, 1944, became the exclusive licensee of petitioner, Kelly, to make and sell cottoners under a single Kelly patent (App. 12070, pp. 6-14).

Consolidated, by another agreement, also was a licensee of Lakso "to manufacture and sell another type of cottoner" (Kelly's Petition, p. 4; see also App. 12070, p. 17) under two Lakso patents (App. 12070, pp. 19-21).

The Kelly license fixed the maximum and minimum prices at which Consolidated not only might sell Kelly machines, but, additionally, Lakso type machines as well.*

Consolidated sued to have the Kelly agreement declared invalid and unenforceable (App. 12070, pp. 4-5).

The matter came on before the District Court on the motions of both parties for summary judgment (App. of Consolidated, 12070, pp. A1-A4), it being conceded that there was "no genuine issue as to any material fact" (App. of Consolidated, 12070, p. A1; Kelly's Petition, p. 6).

The District Court held that Paragraph 9

> "constitut[ed] a fixing of prices by Kelly without patent or other statutory authorization." (App. 12070, p. 28; see also pp. 27-31);

and that Consolidated was

> "entitled, as a matter of law, to judgment in its favor." (App. 12070, p. 26; see also pp. 26-27).

Upon appeal, the Court of Appeals for the Seventh Circuit concluded

> "Only an issue of law was presented for decision by the trial judge and the result reached by him was correct. We think the challenged license agreement an integrated price-fixing arrangement between the

---

* "9. It is further agreed between the parties hereto that the minimum price per machine of either type shall be Two Thousand Five Hundred Dollars ($2,500.00) and that the maximum price on standard machines shall be Five Thousand Dollars ($5,000.00) unless the machines embody special features of construction, and that such price range shall be maintained unless changes therein are mutually agreed to in writing."

parties and in violation of the Sherman Act, 15 U. S. C. § 1 . . ." (Kelly's Petition, p. 14).

Kelly vs. *International Paper Company* (No. 12071 below) was an action by Kelly for allegedly inducing Consolidated's breach of the agreement of June 3, 1944. The District Court held

> "that no action lies for inducing breach of plaintiff's contract here because the contract itself is unenforceable." (App. 12071, pp. 58-59)

and the Court of Appeals held that

> "Granting International's motion for summary judgment in this companion case was correct. The critical contract was unenforceable." (Kelly's Petition, p. 14).

Argument

The Petition does not even assume to show that any of the "special and important reasons" for granting the writ, as set forth in this Court's Rule 19, are presented by this case.

None can be shown, and, in fact, the decision below directly follows a long line of decisions by this Court: *Ethyl Gasoline Corp.* v. *U. S.*, 309 U. S. 436, 456-459 (1940); *Morton Salt Co.* v. *Suppiger Co.*, 314 U. S. 488, 491-492 (1942); *B. B. Chemical Co.* v. *Ellis*, 314 U. S. 495, 497-498 (1942); *U. S.* v. *Masonite Corp.*, 316 U. S. 265, 277-282 (1942); *Mercoid Corp.* v. *Mid-Continent Co.*, 320 U. S. 661, 664-667 (1944); *International Salt Co.* v. *U. S.*, 332 U. S. 392, 395-396 (1947); *United States* v. *Line Material Co.*, 333 U. S. 287, 307-310 (1948); *United States* v. *New Wrinkle, Inc.*, 342 U. S. 371, 377-379 (1952).

Here, it is not disputed and, in fact, is admitted (Kelly's Petition, pp. 7, 8) that Paragraph 9 of the June 3, 1944 agreement fixed the price at which Consolidated might sell cottoners, with respect to which Kelly had no rights and

over which he had no control. The fact that Kelly might have fixed the prices on cottoners made under his own patent is immaterial. Certainly, however, in the words of this Court in the *Ethyl Gasoline* case, *supra*, he

> "may not, by virtue of his patent . . . condition the license so as to control conduct by the licensee not embraced in [his] patent monopoly . . ." (309 U. S. 456)

and

> "The patent monopoly of one invention may no more be enlarged for the exploitation of a monopoly of another . . . than for the exploitation of an unpatented article, . . . or for the exploitation or promotion of a business not embraced within the patent." (309 U. S. 459).

Kelly has never contended that the Lakso machines were "embraced in [his] patent monopoly". Here he refers to them as "another type of cottoner" (Kelly's Petition, p. 4), and as "competing products" (Kelly's Petition, p. 7). Therefore, Kelly did "condition" the agreement of June 3, 1944, "so as to control conduct by [Consolidated] not embraced in the [Kelly] patent monopoly", and Paragraph 9 is illegal *per se* under the Sherman Act.

And this illegality is in no way affected by the fact that, instead of fixing precise or definite prices, Paragraph 9 established a floor and a ceiling within which the sales of Consolidated had to be made. Thus, in *U. S.* v. *Socony-Vacuum Oil Co.*, 310 U. S. 150 (1940), the court said (p. 222):

> "Hence, prices are fixed within the meaning of the *Trenton Potteries* case if the range within which purchases or sales will be made is agreed upon, if the prices paid or charged are to be at a certain level or on ascending or descending scales, if they are to be uniform, or if by various formulae they are related to the market prices. They are fixed because they are agreed upon."

In fact, the rule against price fixing covers the fixing of minimum prices alone or of maximum prices alone. Thus, in *Schine Theatres* v. *United States*, 334 U. S. 110 (1948), this Court said (p. 120):

> "It is well settled that the fixing of minimum prices, like other types of price fixing, is unlawful *per se*."

And in *Kiefer-Stewart Co.* v. *Seagram & Sons*, 340 U. S. 211 (1951), this Court said (p. 213):

> "The Court of Appeals erred in holding that an agreement among competitors to fix maximum resale prices of their products does not violate the Sherman Act. For such agreements, no less than those to fix minimum prices, cripple the freedom of traders and thereby restrain their ability to sell in accordance with their own judgment."

Notwithstanding all this, the Petition assumes to justify price fixing here because, Kelly says, "The prices fixed in the license of June 7, 1944 were not designed to restrain competition but, rather, to protect the licensor." (Kelly's Petition, p. 8). Kelly's design, however, is immaterial. The statement of this Court in *United States* v. *McKesson & Robbins*, 351 U. S. 305 (1956) is pertinent (pp. 309-310):

> "It has been held too often to require elaboration now that price fixing is contrary to the policy of competition underlying the Sherman Act and that its illegality does not depend on a showing of its unreasonableness, since it is conclusively presumed to be unreasonable. It makes no difference whether the motives of the participants are good or evil; whether the price fixing is accomplished by express contract or by some more subtle means; whether the participants possess market control; whether the amount of interstate commerce affected is large or small; or whether the effect of the agreement is to raise or to decrease prices" (footnotes omitted).

Conclusion

The petition for certiorari should be denied.

Respectfully submitted,

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